

SONA BLW Precision Forging

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	SONACOMS IN
Equity Shares (m)	622
M.Cap.(INRb)/(USD\$)	275.4 / 3.1
52-Week Range (INR)	769 / 380
1, 6, 12 Rel. Per (%)	-5/-16/-36
12M Avg Val (INR m)	1385

Financials & Valuations (INR b)

Y/E Mar	2025	2026E	2027E
Sales	35.5	36.4	43.1
EBITDA (%)	27.4	24.9	26.0
Adj. PAT	6.1	5.3	6.3
EPS (INR)	9.9	8.5	10.1
EPS Gr. (%)	10.5	-14.2	19.3
BV/Sh. (INR)	90.8	94.8	100.4

Ratios

Net D:E	0.0	0.0	0.0
RoE (%)	14.5	9.1	10.4
RoCE (%)	13.6	8.9	10.0
Payout (%)	38.0	53.1	44.5

Valuations

P/E (x)	39.8	46.5	38.9
P/BV (x)	4.3	4.2	3.9
EV/EBITDA (x)	23.1	24.6	19.9
Div. Yield (%)	1.0	1.1	1.1
FCF Yield (%)	1.5	1.5	1.2

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	28.0	28.0	29.7
DII	34.6	34.4	29.5
FII	29.8	29.9	32.0
Others	7.6	7.6	8.8

FII Includes depository receipts

CMP:INR443 **TP: INR468 (+6%)** **Neutral**

Multiple global headwinds to restrain growth

BEV revenue down 25% YoY in 1Q

- SONACOMS' margin (excl. railways division) was in line with our estimate; however, PAT was ahead of estimates due to higher other income.
- While its long-term outlook remains positive on the back of its healthy order backlog, SONACOMS is currently witnessing the impact of a slowdown in the EV transition and weak auto demand globally. The ongoing global tariff war, weak global macro, and likely supply chain disruption, especially in EVs, remain key headwinds in the near term. Adjusted for Railways division, core business is trading at ~46.5x FY26E/39x FY27E consol, and appears fairly valued. **Reiterate Neutral with a TP of INR468**, premised on ~40x Jun'27E consol. EPS and assigning INR49 per share for the recently acquired railway business.

Weak operational performance due to multiple global headwinds

- Sona has merged its Railways division into 1Q financials for five weeks. Reported 1Q revenue was down 5% YoY at INR8.5b, with margins declining 430bp YoY to 23.8%. PAT was down 12% YoY at INR1.2b.
- Given that we had not factored in the Railways division numbers in our 1Q estimates, we attempt to give a like-to-like comparison YoY on its financial performance for Sona (excl. Railways division) for 1Q as below.
- Revenue was down by an estimated 10% YoY to INR8b, in line with our estimate. BEV revenue fell 25% YoY to INR2.1b. As a result, BEV share for 2Q declined to 28% from 33% YoY.
- Given the adverse mix and weak revenue, margin contracted 390bp YoY to 24.2%, in line with our estimate.
- Impact in 1Q was a function of multiple adverse factors: 1) a change in supply terms by an EV OEM in Europe from ex works to be delivered to OEM, which in turn added 60 days of shipment time for revenue recognition, which was shifted to 2Q from 1Q; 2) a sharp decline in one global EV OEM due to slowdown in EV demand; 3) shortage of rare earth materials that impacted offtake of traction motors; 4) given uncertainty about US tariffs, OEMs are now maintaining low stock levels. Management did highlight that most of these issues are transient in nature and are likely to normalize in the coming quarters.
- Other income was significantly high at INR427m (est of INR90m).
- As a result, adjusted for exceptional provision, PAT declined 14% YoY to INR1.2b, ahead of our estimate of INR988m.

Highlights from the management commentary

- Update on new order wins: The net order book now stands at INR262b, of which 75% is EV mix. Production from Novelic is expected to start from FY27 onward for an EV customer in cabin sensing. This product is powertrain-agnostic.
- Update on China JV: The company has recently signed a term sheet to form a JV with JNT to enter the China market. While Sona will take a majority 60% stake in the USD20m JV, JNT will take over operational responsibilities. Combining the strength of both partners and confirmed orders from OEMs, Sona aims to be one of the key suppliers of driveline systems in China. This JV is set to commence operations from 2HFY26.
- Update on Railways division: The company has consolidated this business for about three weeks in 1Q. It is the market leader in brake system in Indian Railways. Sona has identified opportunities to add new segments and hence would focus on strong growth over the next 4-5 years.
- Update on supply constraints due to rare earth magnets: Traction motors business saw some impact due to the shortage of rare earth magnets. Sona has now identified light earth substitutes for these heavy earth magnets, which can be used for motors up to 15kw. Sona is now back to normal production levels for traction motors in July with alternate supply arrangements. In traction motors, most of its business comes from 2Ws, which have up to 2kw motor.
- Guidance: Its earlier margin guidance stood at 25-27%. With the merger of the Railway business, which is estimated to have 18% margin, Sona's margins are likely to fall to the 23-25% range.

Valuation and view

- SONACOMS is poised for faster-than-industry growth, driven by 1) content enhancement in the existing portfolio; 2) market share gains in key geographies; and 3) new products such as traction motors, controllers, BSG, and sensors.
- However, SONACOMS is currently witnessing the impact of a slowdown in the EV transition and weak auto demand globally. The ongoing global tariff war, weak global macro, and likely supply chain disruption, especially in EVs, remain key headwinds in the near term. Adjusted for Railways division, core business is trading at ~46.5x FY26E/39x FY27E consol, and appears fairly valued. **Reiterate Neutral with a TP of INR468**, premised on ~40x Jun'27E consol. EPS and assigning INR49 per share for the recently acquired railway business.

Consol. quarterly performance (estimated ex of Railways)

(INR m)

Y/E March	FY25				FY26E				FY25	FY26E	1QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
Net operating revenues	8,930	9,251	8,680	8,494	8,013	8,883	9,515	10,010	35,545	35,425	8,045
Change (%)	22.0	17.0	11.8	-4.0	-10.3	-4.0	9.6	17.8	11.6	-0.3	-9.9
EBITDA	2,512	2,549	2,342	2,160	1,936	2,194	2,379	2,558	9,753	9,067	1,931
EBITDA Margins (%)	28.1	27.6	27.0	25.4	24.2	24.7	25.0	25.6	27.4	24.9	24.0
Depreciation	606	626	666	646	650	710	750	730	2,544	2,840	650
EBIT	1,905	1,923	1,677	1,513	1,286	1,484	1,629	1,828	7,209	6,227	1,281
EBIT Margins (%)	21.3	20.8	19.3	17.8	16.1	16.7	17.1	18.3	20.3	17.1	15.9
Interest	86	106	58	52	50	35	45	52	302	182	50
Non-Operating Income	70	210	468	522	427	110	90	371	1,269	998	90
PBT	1,889	1,918	2,030	2,147	1,571	1,559	1,674	2,148	8,173	7,043	1,321
Effective Tax Rate (%)	25.0	25.1	25.8	23.8	26.4	25.2	25.2	25.4	24.2	0.3	25.2
Adjusted PAT	1,417	1,546	1,564	1,473	1,248	1,166	1,252	1,602	6,200	5,268	988
Change (%)	24.0	20.2	17.1	-0.6	-11.9	-23.2	-19.2	6.0	27.3	-15.0	-30.3
Cost Break-up											
RM Cost (% of sales)	42.4	44.0	44.1	44.3	43.9	45.0	44.5	44.5	43.5	44.5	45.8
Staff Cost (% of sales)	8.5	8.5	9.4	9.2	10.3	9.8	9.5	8.6	8.9	9.5	9.4
Other Cost (% of sales)	20.9	19.9	19.5	21.0	21.6	20.5	21.0	21.4	20.2	21.1	2.8



Key takeaways from the management interaction

Update on new order wins

- Sona has added a single largest order worth INR15.5b in last 2.5 years from a legacy North American OEM of EV PVs for its upcoming EV platform, which is likely to commence in 3QFY28. The order is for the supplies of differential assemblies with final drive gear.
- It has also won a large order worth INR2.6b from Indian OEM of 2W and 3Ws for the supply of traction motors, and production is expected to commence in 4QFY26.
- The net order book now stands at INR262b, of which 75% is EV mix.
- Production from Novelic is expected to start from FY27 onward for an EV customer in cabin sensing. This product is powertrain-agnostic.

Update on China JV

- Sona has recently signed a term sheet to form a JV with JNT to enter the China market. While Sona will take a majority 60% stake in the USD20m JV, JNT will take over operational responsibilities. Combining the strength of both partners and confirmed orders from OEMs, Sona aims to be one of the key suppliers of driveline systems in China. This JV is set to commence operations from 2HFY26 and would supply to both EV and non EV customers.
- Sona does not intend to manufacture differential gears in China. It will make them in India and assemble them in China.

Update on Railways division

- The company has consolidated this business for about three weeks in 1Q.
- It is a market leader in brake system in Indian Railways. Sona has identified opportunities to add new segments and hence would focus on strong growth over the next 4-5 years.

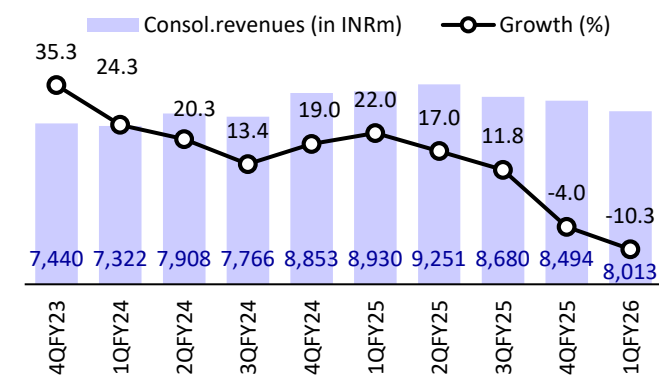
Update on supply constraints due to rare earth magnets

- Traction motors business saw some impact due to the shortage of rare earth magnets.
- It has not identified light earth substitutes for these heavy earth magnets, which can be used for motors up to 15 kw.
- For larger motors, Sona would still be dependent on heavy earth material. Also, one has to note that while Sona has been able to find alternatives in light earth materials, supply of such material is also controlled by China.
- Sona is now back to normal production levels in July with alternate supply arrangements. In traction motors, most of its business comes from 2Ws, which have up to 2kw motor.

Other highlights

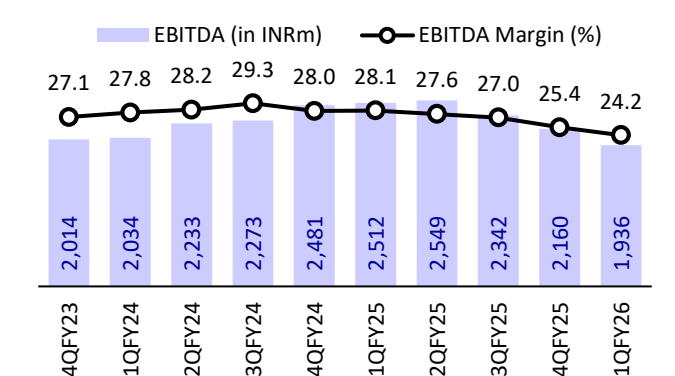
- Sona's plans to ramp-up production in Mexico remain on track despite the tariff-led uncertainty as these were for specific parts as required by OEM.
- Its earlier margin guidance stood at 25-27%. With the merger of the Railway business, which is estimated to have 18% margin, Sona's margins are likely to fall to the 23-25% range.
- Its key growth driver in China has been suspension motor supplies to Neo, for which production commenced in Mar'25.

Exhibit 1: Trend in revenue



Source: Company, MOFSL, *ex of Railways division

Exhibit 2: EBITDA and EBITDA margin trends



Source: Company, MOFSL; *ex of Railways division

Valuation and view

A unique blend of increasing EV share, global scale, and strong financials

- Best proxy on global megatrends of electrification and premiumization:** SONACOMS offers a clean global play on the megatrends of electrification and premiumization. Its product portfolio of differential gears, motors, and sensors is on the right side of the auto industry evolution, with a substantial increase in content in EV products. It is also well-prepared for EV-specific components such as traction motors, controllers, and 48V BSG. It also benefits from the structural premiumization trend observed across segments – PVs (SUVs, 4WDs, BEVs), CVs (MAVs), and tractors (higher HP, 4WDs). The BEV segment already contributed 36% of revenue in FY25 (vs. 29%/26%/25% in FY24/FY23/FY22) and accounted for 76% of the order book.
- Unique positioning of increasing EV sales, global scale, and a strong financial profile:** SONACOMS' unique positioning is driven by 1) a sizeable and increasing presence in EVs, 2) global scale and presence, 3) an expanding customer base, and 4) a strong financial profile. It is a dominant player in the Indian differential gears market and has been gaining market share globally in key product segments – differential gears (8.8% in CY24 vs. 8.1% in CY23), and starter motors (4.4% in CY23 vs. 4.2% in CY23). More importantly, it is truly a global player with a presence across the key markets of North America (~41%), India (~29%), EU (~24%) and Asia (ex-India; ~6%).
- Investing in R&D for future growth:** Its approach is to own the technology to capture the maximum value and offer the best products to its customers. Management indicated an increase in R&D spending in FY25 by ~100bp to ~3.3-3.4% of revenue, signifying its sustained focus on product innovation. Its technology roadmap focuses on developing new products, which help the company increase its share from EVs and reduce dependence on ICE vehicles. Additionally, it aims to capitalize on the EV opportunity at both ends of the power spectrum and eventually offer both product categories to all market segments. SONACOMS is among the few players that are well placed to combine their motor-driveline capabilities to offer integrated drive units with three key components: differential assembly, high-voltage traction motors, and high-voltage inverters.
- Forays into the railway equipment business:** SONACOMS has acquired Escorts Kubota's railway equipment division for an EV of INR16b. Escorts Kubota is the

market leader in the railway brake system. The division is a leading supplier of critical components for Railways, such as brakes and suspension systems for various rolling stocks. Moreover, the acquisition is expected to be EPS-accretive for the company from the first year. While this may broaden the company's addressable market, we believe synergies are uncertain due to the new sector focus, and we will wait to evaluate execution.

- **Valuation and view:** We have raised our estimates for SONACOMS by 7% for FY26E to factor in the higher other income, while maintaining our FY27 estimates. SONACOMS is poised for faster-than-industry growth, driven by 1) content enhancement in the existing portfolio; 2) market share gains in key geographies; and 3) new products such as traction motors, controllers, BSG, and sensors. However, SONACOMS is currently witnessing the impact of a slowdown in the EV transition and weak auto demand globally. The ongoing global tariff war, weak global macro, and likely supply chain disruption, especially in EVs, remain key headwinds in the near term. Adjusted for Railways division, core business is trading at ~46.5x FY26E/39x FY27E consol, and appears fairly valued. **Reiterate Neutral with a TP of INR468**, premised on ~40x Jun'27E consol. EPS and assigning INR49 per share for the recently acquired railway business.

Exhibit 3: Revisions to our estimates

(INR m)	FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	36,421	36,849	-1.2	43,107	43,357	-0.6
EBITDA	9,067	9,466	-4.2	11,216	11,561	-3.0
EBITDA (%)	24.9	25.7	-80bp	26.0	26.7	-60bp
Net Profit	5,268	5,134	2.6	6,283	6,538	-3.9

Key operating indicators

Exhibit 4: Expect strong revenue growth over FY25-27

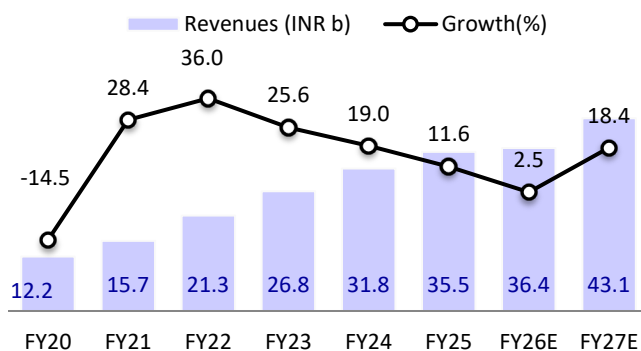


Exhibit 5: EBITDA margin likely to expand in FY25-27E

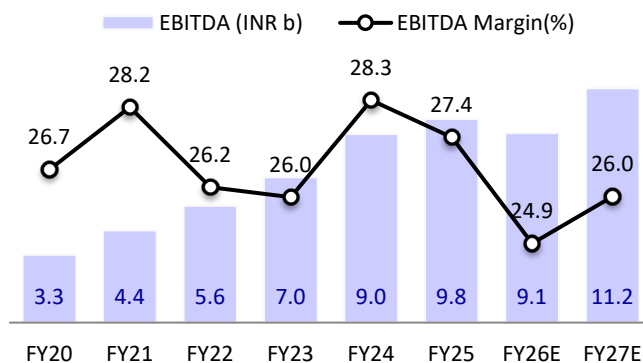


Exhibit 6: Expect 14% PAT CAGR over FY24-26

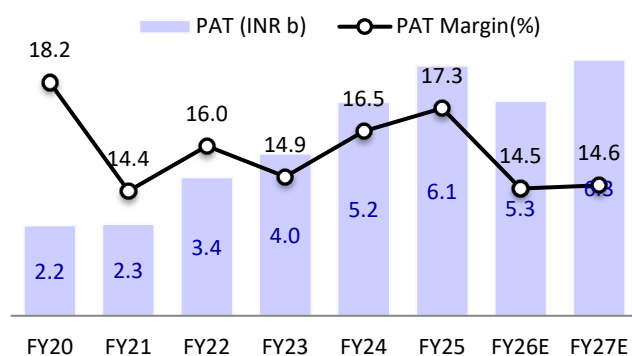


Exhibit 7: RoCE and RoE trends over the years

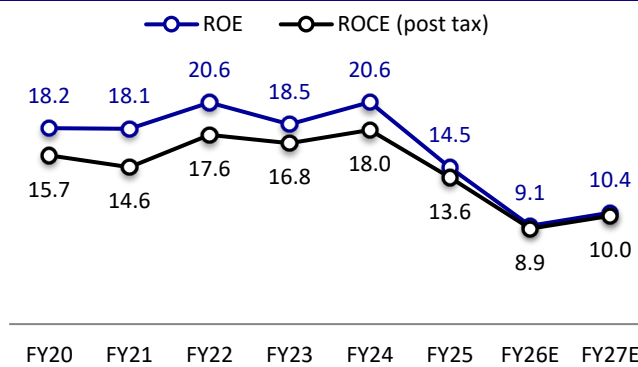


Exhibit 8: Capex to remain high from FY25E onward

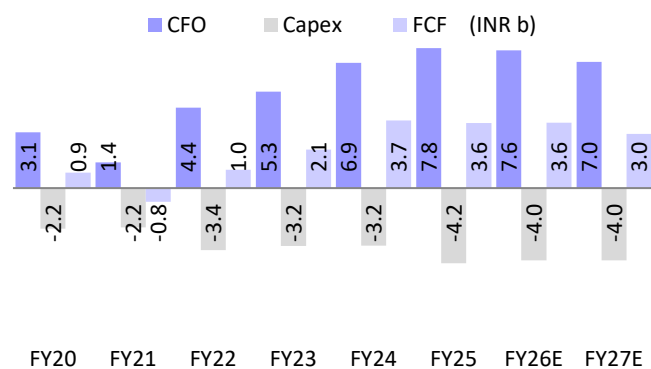
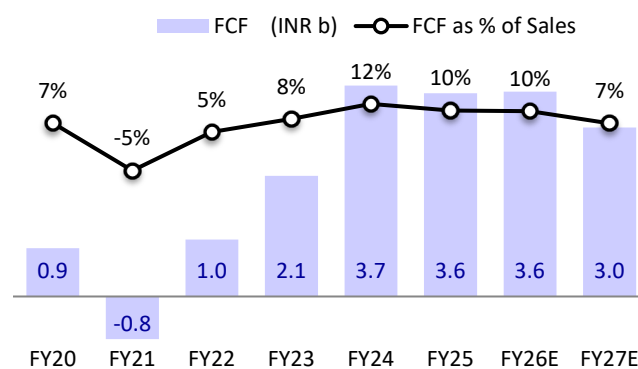


Exhibit 9: FCF should continue to improve



Financials and valuations

Income Statement							(INR m)	
Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Net operating income	12,201	15,663	21,306	26,756	31,848	35,545	36,421	43,107
Change (%)	-14.5	28.4	36.0	25.6	19.0	11.6	2.5	18.4
EBITDA	3,254	4,410	5,591	6,958	9,021	9,753	9,067	11,216
EBITDA Margin (%)	26.7	28.2	26.2	26.0	28.3	27.4	24.9	26.0
Depreciation	782	969	1,420	1,780	2,202	2,544	2,840	3,161
EBIT	2,472	3,441	4,171	5,178	6,819	7,209	6,227	8,055
EBIT Margin (%)	20.3	22.0	19.6	19.4	21.4	20.3	17.1	18.7
Interest cost	269	325	183	169	258	302	182	178
Other Income	76	23	200	116	239	1,269	998	523
Non-recurring Exp/(Inc)	0	139	-267	34	87	193	0	0
PBT after EO	2,279	3,000	4,456	5,091	6,713	7,983	7,043	8,400
Effective Tax Rate (%)	2.7	28.3	18.9	22.4	22.9	24.9	25.2	25.2
Reported PAT	2,217	2,152	3,615	3,953	5,178	5,997	5,268	6,283
Adj. PAT	2,217	2,251	3,399	3,979	5,245	6,142	5,268	6,283
Change (%)	4.2	1.5	51.0	17.1	31.8	17.1	-14.2	19.3

Balance Sheet							(INR m)	
Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Sources of Funds								
Share Capital	472	5,730	5,844	5,854	5,864	6,217	6,217	6,217
Reserves	11,308	7,309	14,159	17,048	20,639	48,731	51,201	54,687
Minority interest	0	0	0	0	1,498	1,499	1,499	1,499
Net Worth	11,779	13,039	20,003	22,902	28,001	56,447	58,918	62,403
Deferred Tax	1,077	1,260	884	876	1,261	1,252	1,252	1,252
Loans	2,614	3,052	704	2,175	2,331	2,022	2,022	2,022
Other non-current liabilities	534	721	698	661	2,200	2	2	2
Capital Employed	16,004	18,073	22,288	26,614	33,793	59,723	62,194	65,680
Application of Funds								
Gross Fixed Assets	5,494	6,395	9,382	12,889	16,323	20,634	24,411	28,411
Less: Depreciation	1,230	1,353	2,189	3,245	4,808	6,905	9,062	11,765
Net Fixed Assets	4,264	5,042	7,193	9,644	11,515	13,729	15,349	16,645
Intangibles	5,489	5,948	5,995	6,122	6,704	6,704	6,868	6,868
Amortisation	860	582	1,105	1,647	2,232	2,679	3,302	3,760
Net Intangibles	4,629	5,366	4,890	4,474	4,472	4,025	3,565	3,108
Capital WIP	896	832	1,474	911	3,636	4,195	4,195	4,195
Goodwill on consolidation	1,758	1,758	1,758	1,758	3,518	3,518	3,518	3,518
Investments	19	0	65	2,326	417	11,182	4,958	7,958
Curr.Assets, L & Adv.	6,940	8,750	10,577	11,485	15,090	28,721	36,570	37,311
Inventory	1,962	3,056	3,634	3,229	3,475	3,487	3,573	4,229
Sundry Debtors	2,336	4,170	4,452	6,089	6,483	7,052	7,226	8,552
Cash & Bank Balances	1,673	276	773	698	2,742	10,475	18,347	15,887
Loans & Advances	5	15	65	92	110	540	100	118
Others	963	1,234	1,654	1,376	2,281	7,168	7,325	8,526
Current Liab. & Prov.	2,503	3,676	3,669	3,984	4,856	5,647	5,961	7,055
Sundry Creditors	1,162	2,241	2,190	2,489	2,981	3,238	3,492	4,134
Other Liabilities	1,223	1,275	1,274	1,256	1,545	1,995	2,044	2,419
Provisions	118	159	206	239	330	414	424	502
Net Current Assets	4,437	5,075	6,908	7,501	10,235	23,074	30,609	30,256
Application of Funds	16,004	18,073	22,288	26,614	33,793	59,723	62,194	65,680

E: MOFSL Estimates; *ex of Railways division

Financials and valuations

Ratios

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
Basic (INR)								
EPS	47.0	3.9	5.8	6.8	8.9	9.9	8.5	10.1
EPS Growth (%)	-38.8	-91.6	48.0	16.9	31.6	10.5	-14.2	19.3
Cash EPS	63.6	5.4	8.6	9.8	12.6	13.7	13.0	15.2
Book Value per Share	249.8	22.8	34.2	39.1	47.7	90.8	94.8	100.4
DPS	0.0	18.9	0.8	1.5	3.1	3.8	4.5	4.5
Payout (Incl. Div. Tax) %	0.0	504.1	12.4	22.7	34.7	38.9	53.1	44.5
FCF (INR/sh)	18.1	-1.3	1.7	3.6	6.4	5.8	5.8	4.8
Valuation (x)								
P/E	8.4	100.2	67.7	57.9	44.0	39.8	46.5	38.9
EV/EBITDA	6.0	51.8	41.2	33.1	25.7	23.1	24.6	19.9
EV/Sales	1.6	14.6	10.8	8.6	7.3	6.3	6.1	5.2
Price to Book Value	1.6	17.3	11.5	10.1	8.2	4.3	4.2	3.9
Dividend Yield (%)	0.0	4.8	0.2	0.4	0.8	1.0	1.1	1.1
FCF Yield (%)	4.6	-0.3	0.4	0.9	1.6	1.5	1.5	1.2
Profitability Ratios (%)								
RoE	18.2	18.1	20.6	18.5	20.6	14.5	9.1	10.4
RoCE (post-tax)	15.7	14.6	17.6	16.8	18.0	13.6	8.9	10.0
RoIC	17.3	16.2	18.3	18.9	21.2	17.8	13.6	16.7
Turnover Ratios								
Debtors (Days)	70	97	76	83	74	72	72	72
Inventory (Days)	59	71	62	44	40	36	36	36
Creditors (Days)	35	52	38	34	34	33	35	35
Working Capital (Days)	94	116	101	93	80	75	73	73
Asset Turnover (x)	0.8	0.9	1.1	1.1	1.1	0.8	0.6	0.7
Leverage Ratio								
Net Debt/Equity (x)	0.1	0.2	0.0	0.0	0.0	-0.3	-0.4	-0.3

Cash Flow Statement

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E
(INR m)								
Profit before Tax	2,279	3,000	4,456	5,091	6,713	7,983	7,043	8,400
Depreciation & Amort.	782	969	1,420	1,780	2,202	2,544	2,840	3,161
Direct Taxes Paid	-398	-528	-544	-1,102	-1,553	-1,740	-1,775	-2,117
(Inc)/Dec in Working Capital	4	-2,070	-890	-630	-644	-556	336	-2,107
Interest/Div. Received	-31	-29	-179	-112	-209	-805	-998	-523
Other Items	457	85	183	307	418	326	182	178
CF after EO Items	3,092	1,427	4,446	5,333	6,928	7,752	7,629	6,993
(Inc)/Dec in FA+CWIP	-2,239	-2,180	-3,438	-3,196	-3,191	-4,155	-4,000	-4,000
Free Cash Flow	853	-753	1,008	2,136	3,736	3,597	3,629	2,993
Interest/dividend received	39	22	179	31	204	602	998	523
(Pur)/Sale of Invest.	-7,286	598	-275	-2,450	-1,724	-14,070	6,225	-3,000
CF from Inv. Activity	-9,487	-1,561	-3,534	-5,615	-4,711	-17,623	3,223	-6,477
Inc/(Dec) in Debt	1,320	504	-2,954	1,471	94	-2,199	0	0
Interest Paid	-205	-246	-92	-12	-173	-96	-182	-178
Dividends Paid	-1,532	-904	-450	-1,199	-1,793	-1,892	-2,798	-2,798
Others	0	-21	-170	-113	84	23,623	0	0
CF from Fin. Activity	7,083	-667	-625	187	-1,747	19,436	-2,980	-2,976
Inc/(Dec) in Cash	689	-800	287	-95	469	9,565	7,872	-2,460
Add: Beginning Balance	361	1,050	249	536	441	910	10,475	18,347
Closing Balance	1,050	249	536	441	910	10,475	18,347	15,887

E: MOFSL Estimates; *ex of Railways division

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SELL	< - 10%
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