

October 25, 2023

RESULT REPORT Q2 FY24 | Sector: Automobile

Sona BLW Precision Forgings Ltd

Setting its sight beyond auto mobility!

Valuation and View

Sona BLW (SONACOMS) 2QFY24 results were better as EBITDA/PAT exceeded our estimates by 6-8%, led by better than expected EBITDA margins at 27.9% (est 27.1%, +20bp QoQ 9 quarter high). This was led by product mix as RM remained stable QoQ. On the positive side, the key highlight of the quarter was the update on new product strategy/technology roadmap where co is moving from auto only mobility to broader mobility technology play. It has added overall ~7 new products for differential gears vertical (2 products including robotic gears and light weight differentials), Motors (2 products such as non-auto mobility motor and integrated motor controller) and Sensors (3 products for zone monitoring, short-range radars and in-cabin sensors). New order addition at Rs6b was still muted (v/s Rs13b/Rs5b/Rs42b/Rs4b/Rs28b orders added in previous 5 quarters). Co's overall orderbook stands at Rs221b (v/s flat QoQ and Rs215b/Rs186b in FY23/FY22. Sona's EV revenue mix during 2QFY24 were at 27% (v/s 26% in 1QFY24).

The management guided majority of new programs would go into production in 1-2 quarters. On the other hand, with RM headwinds receding, coupled with benefits of operating leverage should help margins expansion over FY23-25E. Hence, we expect revenue/EBITDA/Adj. PAT to grow 33-50% CAGR over FY23-25E. We haven't change our FY24E/25E EPS despite recent strike impact which is expected to come through in 3QFY24E as we believe Sona should continue to outperform the underlying industry volumes. We maintain an ADD on the stock with TP at Rs590 (unchanged) given limited upside led by recent valuations expansion.

Result Highlights - Favorable product mix drive EBITDA margins

- Consol revenues grew 20.6% YoY (+7.7% QoQ) at Rs7.85b (est Rs7.7b, cons Rs7.7b) outperforming underlying light vehicle industry growth of ~14%.
- Gross margins expanded 220bp YoY/ -200bp QoQ at 54.9% (est 56.3%) partially offset by lower-than-expected other expense at Rs1.57b (+13.4% YoY/ -4.4% QoQ, est Rs1.78b). This was led by product mix impact.
- Consequently, EBITDA came in better at Rs2.2b (+36.4% YoY/ +8.6% QoQ), est Rs2.07b, cons Rs2.18b led to margins expansion of 320bp YoY/ 20bp QoQ at 27.9% (est 27.1%, cons 28.4%). Co have consolidated Novelic's financials for~1 month.
- Led by steady operating performance, adj. PAT came in at Rs1.28b (+39% YoY/ +12.6% QoQ, est Rs1.18b, cons Rs1.25b).

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	7,875	7,680	7,692	2.5	2.4	SONACOMS 2QFY24 results were better to our estimates but in-line to street. .
EBITDA	2,200	2,077	2,181	5.9	0.9	
EBITDA margins %	27.9	27.1	28.4	90bp	-40bp	
Adjusted PAT	1,285	1,187	1,255	8.3	2.4	

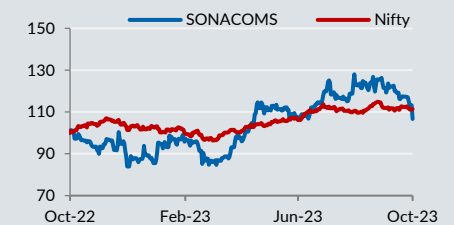
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 513
Target Price	: Rs 590
Potential Return	: +15%

Stock data (as on October 25, 2023)

Nifty	19,122
52 Week h/l (Rs)	626 / 398
Market cap (Rs/USD mn)	297947 / 3583
Outstanding Shares (mn)	585
6m Avg t/o (Rs mn):	1,160
Div yield (%):	0.6
Bloomberg code:	SONACOMS IN
NSE code:	SONACOMS

Stock performance



	1M	3M	1Y
Absolute return	-9.9%	-13.8%	6.3%

Shareholding pattern (As of Sep'23 end)

Promoter	29.8%
FII+DII	60.9%
Others	9.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	590	590

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	11.1	15.5
EPS (Old)	11.1	15.5
% change	-	-

Financial Summary

Y/E Mar (Rs bn)	2023	2024E	2025E
Sales	27	37	48
EBITDA	7.0	10.4	13.8
Adj. PAT	4.0	6.5	9.0
EPS (INR)	6.8	11.1	15.5
EPS Gr. (%)	13.3	63.3	39.2
BV/Sh (INR)	39.1	48.5	61.5
RoE (%)	18.5	25.3	28.1
RoCE (%)	18.7	26.0	26.6
P/E (x)	75.4	46.2	33.2
P/BV (x)	13.1	10.6	8.3
EV/EBITDA (x)	43.0	28.6	21.3
Div. Yield (%)	0.3	0.3	0.5

DEEP SHAH

Lead Analyst

deep.shah@ysil.in

+91 22 68850521



Exhibit 2: Quarterly snapshot

Y/E Mar (Rs m)	Q2FY24	Q2FY23	YoY chg (%)	Q1FY24	1HFY24	1HFY23	YoY chg (%)
Net Revenues	7,875	6,529	20.6	7,314	15,189	12,372	22.8
Raw Materials	3,553	3,089	15.0	3,153	6,706	5,771	16.2
% of Net Sales	45.1%	47.3%		43.1%	44.1%	46.7%	
Personnel	550	442	24.6	491	1,042	871	19.7
% of Net Sales	7.0%	6.8%		6.7%	6.9%	7.0%	
Manufacturing & Other Exp	1,572	1,386	13.4	1,644	3,215	2,742	17.3
% of Net Sales	20.0%	21.2%		22.5%	21.2%	22.2%	
Total Expenditure	5,675	4,917	15.4	5,288	10,963	9,384	16.8
EBITDA	2,200	1,612	36.4	2,026	4,226	2,988	41.4
EBITDA Margin (%)	27.9%	24.7%		27.7%	27.8%	24.2%	
Depreciation	534	429	24.5	511	1,045	830	25.9
EBIT	1,666	1,183	40.8	1,515	3,181	2,158	47.4
Interest Expenses	60	43	39.0	53	113	72	57.3
Non-operating income	94	73		61	156	133	17.1
Extraordinary Income	59	-		28	87	-	
Extraordinary Expenses	0	0		0	-	-	
PBT	1,641	1,213	35.3	1,495	3,136	2,219	41.4
Tax-Total	401	288	39.3	375	775	536	44.8
Tax Rate (%) - Total	24.4%	23.7%		25.1%	24.7%	24.1%	
Reported PAT	1,241	925	34.1	1,120	2,361	1,683	40.3
Adj. PAT	1,285	925	38.9	1,142	2,427	1,683	44.2
PAT Margin	16.3%	14.2%		15.6%	16.0%	13.6%	

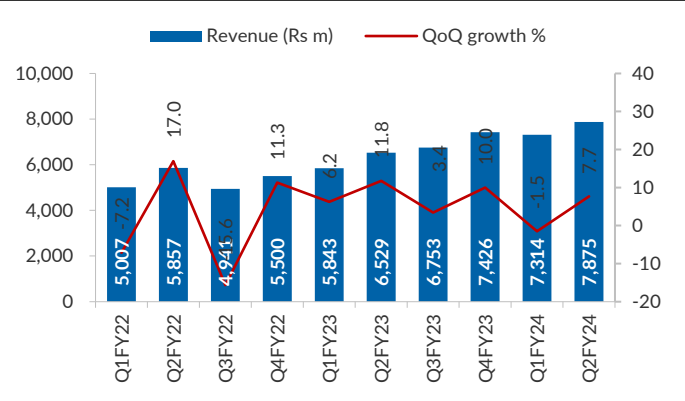
Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Update on new product strategy and technology roadmap – moving from auto only mobility to broader mobility technology play**
 - Have added overall 7 new products for differential gears vertical (2 products including robotic gears and light weight differentials),
 - Motors (2 products such as non-auto mobility motor and integrated motor controller) and
 - Sensors (3 products for zone monitoring, short-range radars and in-cabin sensors).
- **Orderbook** - ~Rs6b worth of orders added in 2QFY24 with net order book at Rs221b (v/s Rs220b in 1QFY24 and Rs215b in 4QFY23), with EVs accounting for 78% as of 2QFY24 (v/s 78% 1QFY24, 77% as of FY23 v/s 62% of total orders in FY22).
- Total Revenue grew by a robust ~20% while light vehicle sales in top-3 markets (North America, India, and Europe) grew by ~14% YoY.
 - **BEV revenue grew 58% YoY at Rs2.07b (v/s Rs1.84b in 1QFY24) with share in revenues at 27% (vs 26% in 1QFY24).**
 - **Traction motors revenue share from EV 2W/3W have doubled to 5% in 1HFY24 v/s 2.5% in 1QFY24.**
 - **Expect revenue share from new business vertical of Sensors and software (Novelic) to ramp-up in coming quarters.** Consol results include Novelic financials for ~1 month only.
 - Novelic business is progressing well
 - Expect share of Europe in revenues to increase from FY25E onwards as couple of large programs to come on stream.
- **Have added 2 new EV program with 1 new EV customers with total programs at 48 (across 28 customers) – 1) Rotor Embedded Differential Sub-Assembly for EV PV from North American new age OEM of Electric PVs order worth Rs1.7b with SOP by 2QFY25, 2) Mid-Drive Traction Motor for EV 3W from existing Indian OEM customer worth Rs3.7b with SOP by 3QFY25.**
 - **25 programs are in fully ramped up stage.**
- **US UAW strike impact** – it's a general strike and almost all customers have been impacted. Expect strike to resolve in near term. Not spending too much of time as management to dwell much into it.
- **EBITDA margins guidance** – like to remain in the target range of 25-27% in the medium term.
- **Other expense decline QoQ was led by product mix impact.** When revenue from Assembly part go up, other expense come down while RM tends to be higher.
- **Steep price impact on margins** – prices are largely stable but alloy prices are volatile.
- EV – socio dynamic playing out, geo-political issues.
- Capex to revenue ratio for driveline business at 1:2 and for motor business is 1:1.5.

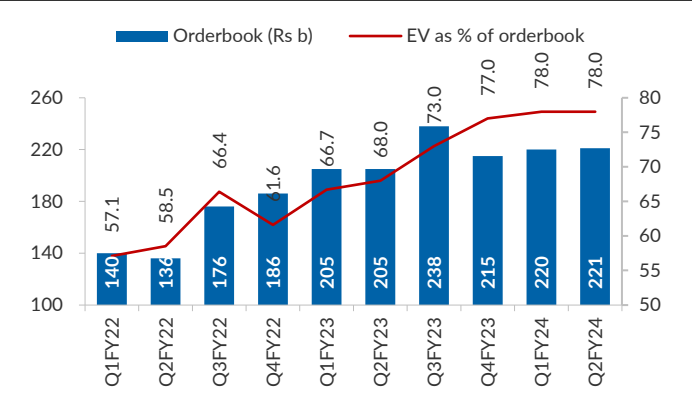
CHARTS

Exhibit 1: 2QFY24 revenues increased 7.7% QoQ



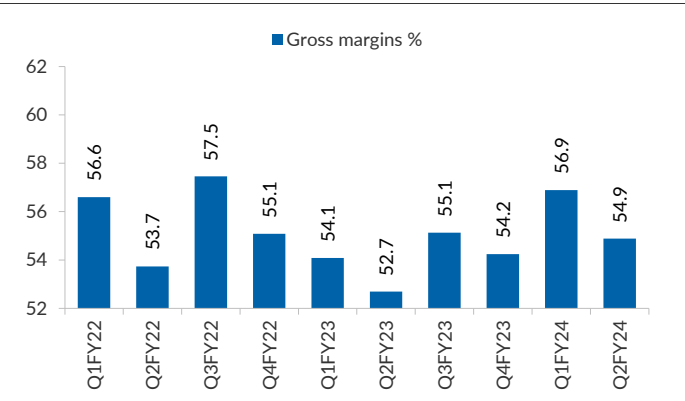
Source: Company, YES Sec

Exhibit 2: EV account for ~78% of orderbook



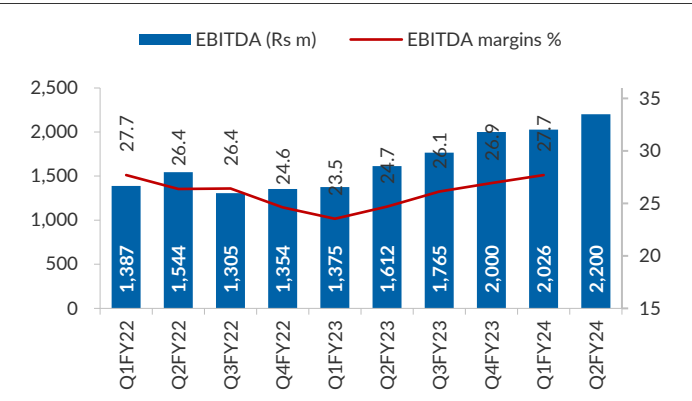
Source: Company, YES Sec

Exhibit 3: GM contracted 200bp QoQ at 54.9%



Source: Company, YES Sec

Exhibit 4: Margins expanded ~20bp QoQ at 27.9%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	472	5,730	5,844	5,854	5,854	5,854
Preference Capital	6	-	-	-	-	-
Total Reserves	11,302	8,030	14,159	17,048	22,552	30,138
Net Worth	11,779	13,759	20,003	22,902	28,406	35,992
Total Loans	3,672	4,472	1,511	2,952	3,122	2,482
Deferred Tax Liabilities	1,077	941	884	876	876	876
Capital Employed	16,528	19,172	22,398	26,730	32,404	39,350
Gross Block	10,403	12,343	15,377	19,192	21,692	23,692
Less: Accum. Deprn.	1,195	1,935	3,294	5,074	6,679	8,491
Net Fixed Assets	9,209	10,408	12,083	14,118	15,013	15,201
Goodwill	1,758	1,758	1,758	1,758	1,758	1,758
Capital WIP	581	832	1,474	911	911	911
Total Investments	71	58	130	2,418	2,669	2,947
Curr. Assets, Loans&Adv.	6,888	8,923	10,512	11,393	17,381	24,858
Inventory	1,962	3,056	3,634	3,232	6,224	8,207
Account Receivables	2,336	4,170	4,452	6,089	7,915	10,271
Cash and Bank Balance	1,673	276	773	698	1,780	4,845
Loans and Advances	-	-	-	-	-	-
Other current assets	916	1,422	1,654	1,373	1,462	1,535
Curr. Liability & Prov.	1,979	2,807	3,559	3,868	5,329	6,326
Account Payables	1,861	2,647	3,353	3,629	5,070	6,045
Provisions	118	159	206	239	259	282
Net Current Assets	4,909	6,116	6,953	7,525	12,052	18,532
Appl. of Funds	16,528	19,172	22,398	26,730	32,404	39,350

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Total Income from Operations	12,201	15,663	21,306	26,755	37,350	47,834
Change (%)	(14.5)	28.4	36.0	25.6	39.6	28.1
Raw Materials	5,139	6,453	9,456	12,200	15,854	20,585
% of Sales	42.1	41.2	44.4	45.6	42.4	43.0
Employees Cost	1,222	1,474	1,689	1,804	2,608	3,342
% of Sales	10.0	9.4	7.9	6.7	7.0	7.0
Other Expenses	2,586	3,325	4,571	5,795	8,468	10,085
% of Sales	21.2	21.2	21.5	21.7	22.7	21.1
EBITDA	3,254	4,410	5,591	6,958	10,420	13,822
Margin (%)	26.7	28.2	26.2	26.0	27.9	28.9
Depreciation	782	969	1,420	1,780	1,605	1,812
EBIT	2,472	3,441	4,171	5,178	8,815	12,010
Interest Charges	269	325	183	169	299	295
Other Income	76	23	200	116	74	237
PBT bef. EO Exp.	2,279	3,139	4,189	5,124	8,590	11,951
EO Items	-	(139)	133	(34)	-	-
PBT after EO Exp.	2,279	3,000	4,322	5,091	8,590	11,951
Total Tax	62	848	706	1,138	2,092	2,904
Tax Rate (%)	2.7	28.3	16.3	22.4	24.4	24.3
Reported PAT	2,217	2,152	3,615	3,952	6,497	9,047
Adjusted PAT	2,217	2,251	3,504	3,979	6,497	9,047
Change (%)	4.2	1.5	55.7	13.5	63.3	39.2

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	2,279	3,000	4,322	5,091	8,590	11,951
Deprn. & Amort.	782	969	1,420	1,780	1,605	1,812
Net Interest Exp. / Inc. (-)	238	325	172	161	299	295
Inc (-) / Dec in WCap.	4	(2,070)	(890)	(630)	(3,446)	(3,416)
Others	188	(269)	(34)	33	0	-
Taxes Paid	(398)	(528)	(544)	(1,102)	(2,092)	(2,904)
Operating Cash Flow	3,092	1,427	4,446	5,333	4,955	7,739
Capex	(2,239)	(2,189)	(3,472)	(3,352)	(2,500)	(2,000)
Free Cash Flow	853	(762)	974	1,980	2,455	5,739
-Inc/dec in investments	(6,916)	598	(275)	(2,309)	(251)	(278)
Other	(332)	31	213	32	-	-
Investing Cash Flow	(9,487)	(1,561)	(3,534)	(5,629)	(2,751)	(2,278)
Inc/(dec) in capital	8,706	-	2,981	40	-	-
Dividend +Tax Thereon	(1,731)	(904)	(450)	(1,199)	(993)	(1,461)

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E
Inc/dec in loans	1,320	608	(2,954)	1,471	50	(450)
Net Interest Exp. / Inc. (-)	(205)	(246)	(92)	(12)	(299)	(295)
Other assets	(1,007)	(125)	(122)	(113)	120	(190)
Financing Cash Flow	7,083	(667)	(637)	187	(1,122)	(2,396)
Inc / Dec (-) in Cash	689	(800)	275	(109)	1,082	3,064
Opening cash balance	361	1,050	249	536	441	1,523
Movement in Foreign currency translation reserve	-	-	12	14	-	-
Closing Cash Balance	1,050	250	536	441	1,523	4,587

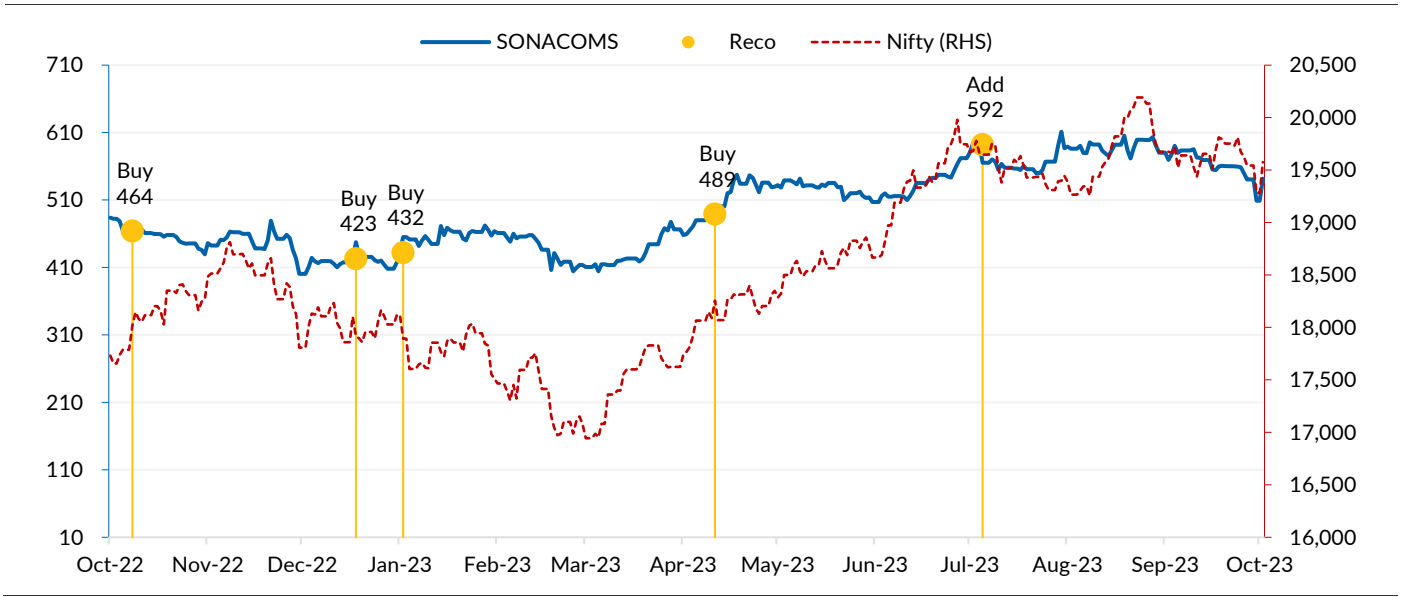
Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)						
EPS	3.9	3.9	6.0	6.8	11.1	15.5
Cash EPS	5.2	5.6	8.4	9.8	13.8	18.5
BV/Share	20.5	24.0	34.2	39.1	48.5	61.5
DPS	1.9	1.6	0.8	1.5	1.7	2.5
Valuation (x)						
P/E	132.5	130.5	85.5	75.4	46.2	33.2
P/BV	25.0	21.4	15.0	13.1	10.6	8.3
EV/Sales	24.2	19.0	14.1	11.2	8.0	6.2
EV/EBITDA	90.7	67.4	53.6	43.0	28.6	21.3
Dividend Yield (%)	0.4	0.3	0.2	0.3	0.3	0.5
FCF per share	1.0	0.9	1.5	(1.3)	1.7	3.4
Return Ratios (%)						
RoE	18.2	17.6	20.8	18.5	25.3	28.1
RoCE (post-tax)	19.7	19.3	20.7	18.7	26.0	26.6
RoIC	18.8	16.4	18.9	19.3	27.7	32.4
Working Capital Ratios						
Asset Turnover (x)	0.7	0.8	1.0	1.0	1.2	1.3
Inventory (Days)	58.7	71.2	62.2	44.1	60.8	62.6
Debtor (Days)	69.9	97.2	76.3	83.1	77.3	78.4
Creditor (Days)	47.4	72.7	50.9	45.9	52.9	54.3
Leverage Ratio (x)						
Current Ratio	3.5	3.2	3.0	2.9	3.3	3.9
Interest Cover Ratio	12.1	13.6	30.6	41.1	34.9	46.8
Net Debt/Equity	0.1	0.2	(0.0)	(0.0)	(0.1)	(0.2)

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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Registered Address: 2nd Floor, North Side, YES BANK House, Off Western Express Highway, Santacruz East, Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House, Lok Bharti Complex, Marol Maroshi Road, Andheri East, Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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