

January 23, 2024

RESULT REPORT Q3 FY24 | Sector: Automobile

Sona BLW Precision Forgings Ltd

Upward revision in EBITDA margin guidance

Valuation and View

Sona BLW (SONACOMS) 3QFY24 results were better as EBITDA/PAT exceeded our estimates by 11-13%, led by better than expected EBITDA margins at 29.7% (est 27.4%, +180bp QoQ, 13 quarter high). This was led by operational efficiencies and benign RM costs. We believe the operating performance were healthy given UAW strike led to Rs250mn revenue impact in Oct-23, which is now resolved and will partially reverse in 4QFY24. On the positive side, the key highlight of the quarter was, 1) the new order wins for Integrated Motor Controller (IMC) for EV 2W segment and 2) upward revision in EBITDA margins guidance to 28%+ in the near term (vs earlier guidance of 25-27%). Adjusted New order addition came in healthy at ~Rs20b (v/s Rs13b/Rs5b/Rs42b/Rs4b/Rs28b/Rs6b orders added in previous 6 quarters). Co's overall orderbook stands at Rs240b (v/s Rs221b QoQ and Rs215b/Rs186b in FY23/FY22). Sona's EV revenue mix during 3QFY24 were at 30% (v/s 27%/26% in 2QFY24/1QFY24).

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 27-42% CAGR over FY24-26E. We haven't change our FY24E/25E EPS and have maintained an ADD on the stock with TP at Rs684 (unchanged) given limited upside led by recent valuations expansion.

Result Highlights - Favorable product mix drive EBITDA margins

- Consol revenues grew 15.8% YoY (-0.7% QoQ) at Rs7.8b (est Rs7.6b, cons Rs8.3b) outperforming underlying light vehicle industry growth of ~13%.
- Gross margins expanded 430bp YoY/ 450bp QoQ at 59.4% (est 55.2%) partially offset by higher than expected employee cost at Rs732m (est Rs600m) due to ESOP cost under the newly approved scheme.
- Consequently, EBITDA came in better at Rs2.3b (+31.8% YoY/ +5.7% QoQ, est Rs2.1b, cons Rs2.29b) led to margins expansion of +360bp YoY/ +180bp QoQ at 29.7% (est 27.4%, cons 27.6%).
- Led by steady operating performance, Adj.PAT came in at Rs1.33b (+24.7% YoY/ +4% QoQ, est Rs1.18b, cons Rs1.32b).
- 9MFY24 performance - Revenue/EBITDA/Adj.PAT grew 20.3%/37.9%/36.6% to Rs23b/Rs6.6b/Rs3.7b.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	7,818	7,654	8,284	2.1	(5.6)	SONACOMS 3QFY24 results were better to our and street estimates.
EBITDA	2,325	2,094	2,289	11.0	1.6	
EBITDA margins %	29.7	27.4	27.6	240bp	210bp	
Adjusted PAT	1,336	1,186	1,325	12.6	0.8	

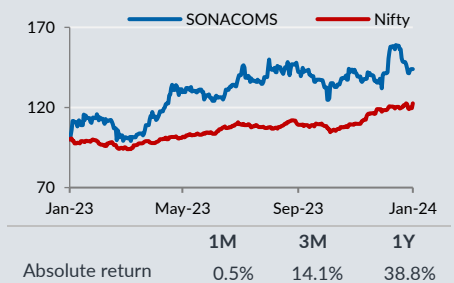
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 580
Target Price	: Rs 684
Potential Return	: +18%

Stock data (as on Jan 23, 2024)

Nifty	22,097
52 Week h/l (Rs)	670 / 401
Market cap (Rs/USD mn)	343039 / 4142
Outstanding Shares (mn)	586
6m Avg t/o (Rs mn):	1,245
Div yield (%):	0.5
Bloomberg code:	SONACOMS IN
NSE code:	SONACOMS

Stock performance



Shareholding pattern (As of Dec'23 end)

Promoter	29.8%
FII+DII	60.9%
Others	9.4%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	684	684

Δ in earnings estimates

	FY24E	FY25E
EPS (New)	10.7	15.0
EPS (Old)	10.7	15.0
% change	-	-

Financial Summary

Y/E Mar (Rs bn)	2024E	2025E	2026E
Sales	37.4	47.8	60.7
EBITDA	10.4	13.8	18.8
Adj. PAT	6.3	8.8	12.7
EPS (INR)	10.7	15.0	21.8
EPS Gr. (%)	57.4	40.6	44.9
BV/Sh (INR)	48.1	60.7	79.4
RoE (%)	24.5	27.6	31.1
RoCE (%)	24.4	25.4	28.6
P/E (x)	54.2	38.6	26.6
P/BV (x)	12.1	9.6	7.3
EV/EBITDA (x)	32.3	24.1	17.3
Div. Yield (%)	0.3	0.4	0.5

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs m)	Q3FY24	Q3FY23	YoY chg (%)	Q2FY24	9MFY24	9MFY23	YoY chg (%)
Net Revenues	7,818	6,753	15.8	7,875	23,006	19,124	20.3
Raw Materials	3,177	3,030	4.9	3,553	9,883	8,802	12.3
% of Net Sales	40.6%	44.9%		45.1%	43.0%	46.0%	
Personnel	732	478	53.3	550	1,774	1,348	31.6
% of Net Sales	9.4%	7.1%		7.0%	7.7%	7.0%	
Manufacturing & Other Exp	1,583	1,480	7.0	1,572	4,799	4,222	13.7
% of Net Sales	20.3%	21.9%		20.0%	20.9%	22.1%	
Total Expenditure	5,493	4,988	10.1	5,675	16,455	14,372	14.5
EBITDA	2,325	1,765	31.8	2,200	6,551	4,752	37.9
EBITDA Margin (%)	29.7%	26.1%		27.9%	28.5%	24.8%	
Depreciation	559	470	19.0	534	1,604	1,300	23.4
EBIT	1,766	1,295	36.4	1,666	4,947	3,452	43.3
Interest Expenses	73	51	44.0	60	187	123	51.8
Non-operating income	(2)	130		94	154	263	(41.6)
Extraordinary Income	-	-		59	87	-	
Extraordinary Expenses	0	0		0	-	-	
PBT	1,690	1,373	23.1	1,641	4,827	3,592	34.4
Tax-Total	354	302	17.2	401	1,130	838	34.8
Tax Rate (%) - Total	21.0%	22.0%		24.4%	23.4%	23.3%	
Reported PAT	1,336	1,071	24.7	1,241	3,697	2,754	34.2
Adj. PAT	1,336	1,071	24.7	1,285	3,763	2,754	36.6
PAT Margin	17.1%	15.9%		16.3%	16.4%	14.4%	

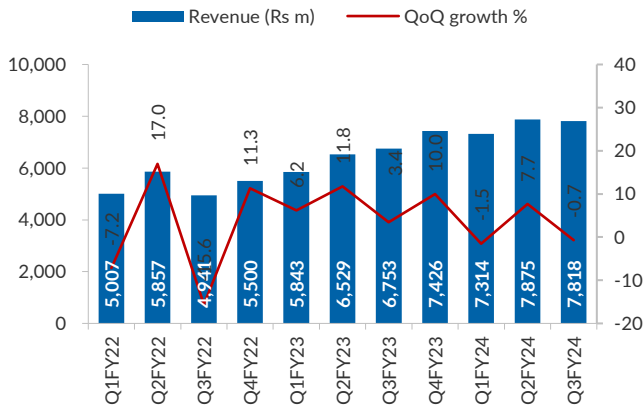
Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **BEV Revenue Share:** Revenue from Battery EV grew 28% YoY at Rs2.22bn in Q3FY24. BEV revenue share and contributed 30% of total revenue (vs 27% in Q2FY24).
- **EBITDA margin guidance:** Expect margins to remain 28%+ in the near term (vs earlier guidance of 25-27%). Don't foresee any surge in steel prices.
- **Order book:** The net order book increased to Rs224bn in Q3FY24 end from Rs221bn at Q2FY24 end, with 5 new BEV program wins. EVs programs contribute 79% to the net order book.
- **New order wins:** Won five new BEV programs including two new EV customer. **1) New order from a new legacy Indian ICE/EV 2W OEM player**, to supply integrated motor controllers for their upcoming high-performance electric bikes. This program has added RS3.45bn to the order book and production is likely to commence in Q1FY26.
- **2) Global EV OEM has awarded a new program to supply Spool Gears** for the three-motor architecture of their most advanced and highest-torque SUV BEV model. This program has added RS5.7bn to the order book and production to commence from Q4FY24. **3) A North American New Age EV OEM** has awarded the company a program to supply Epicyclic Geartrain and Rotor shafts for their high-performance electric car. This program has added Rs990mn to the order book, and production will likely commence in H1FY27.
- **Market scenario:** In Q3, India OHV has remained weak impacting DG/DA revenues in current quarter. Domestic EV 2W traction motor revenues impacted due to industry pricing action and expected to continue to remain under pressure for coming months. Indian auto markets will likely remain volatile for coming quarters. Europe LMV market recovered sharply.
- **EV industry outlook:** Don't expect any slowdown in electrification in the medium-long term.
- **Red Sea crisis impact:** Current impact remains negligible. However, if it continues, may lead to higher inventories and long supply time to Europe and USA customers.
- **Impact of UAW strike:** UAW strike led to Rs250mn revenue impact in October-23, which is now resolved. This will partially reverse in Q4.
- **New products:** Introduced a new product, an integrated motor controller, that should improve the electric powertrains for EV 2Ws due to many technical advantages including thermal management.
- **Equipmake TLA:** Currently testing and validating EV bus motors and controller and expected to launch in Q4CY25/Q1CY26.
- **Market share:** In 2023, Differential Gears share has improved to ~8.1% (from 7.2% in 2022). Starter Motors share has improved to ~4.2% (from 4.1% in 2022) as Europe/USA markets grew faster compared to Asia.
- **PLI Scheme:** Approval process is long drawn and awaiting response from government.

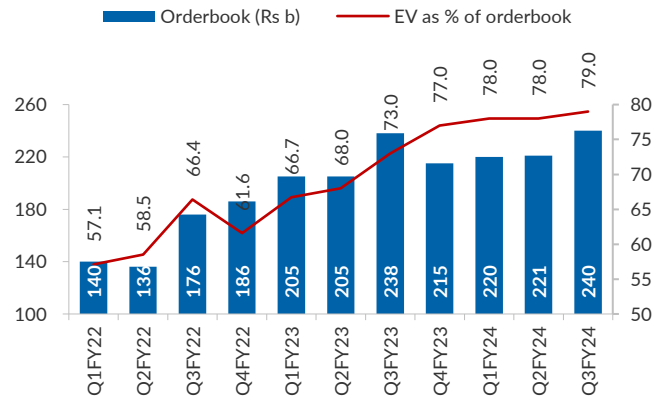
CHARTS

Exhibit 1: 3QFY24 revenues declined -0.7% QoQ



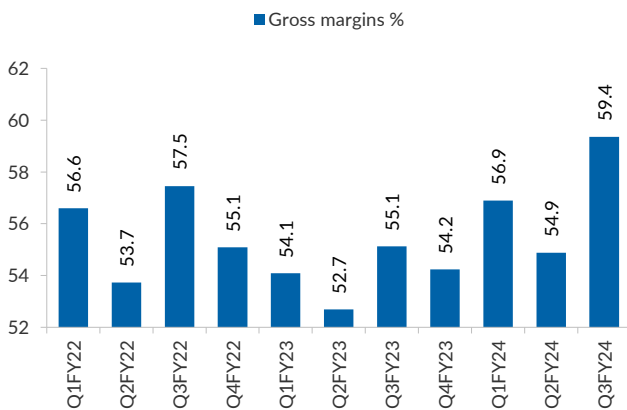
Source: Company, YES Sec

Exhibit 2: EV accounted for ~79% of orderbook



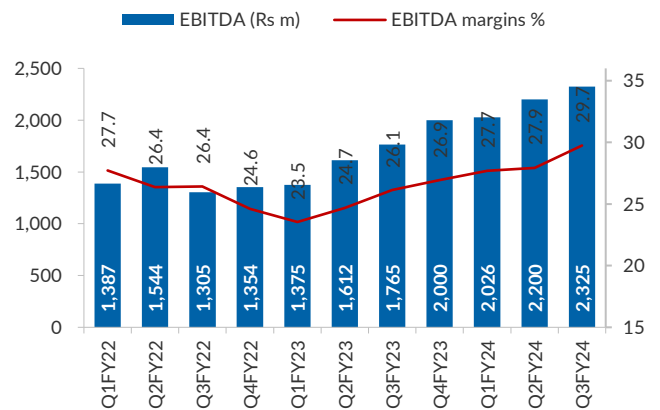
Source: Company, YES Sec

Exhibit 3: GM expanded 450bp QoQ at 59.4%



Source: Company, YES Sec

Exhibit 4: Margins expanded ~180bp QoQ at 29.7%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	472	5,730	5,844	5,854	5,854	5,854	5,854
Preference Capital	6	-	-	-	-	-	-
Total Reserves	11,302	8,030	14,159	17,048	22,315	29,654	40,649
Net Worth	11,779	13,759	20,003	22,902	28,169	35,508	46,503
Total Loans	3,672	4,472	1,511	2,952	3,122	2,482	2,332
Deferred Tax Liabilities	1,077	941	884	876	876	876	876
Capital Employed	16,528	19,172	22,398	26,730	32,167	38,867	49,711
Gross Block	10,403	12,343	15,377	19,192	21,692	23,692	25,192
Less: Accum. Deprn.	1,195	1,935	3,294	5,074	7,272	9,753	12,412
Net Fixed Assets	9,209	10,408	12,083	14,118	14,420	13,939	12,779
Goodwill	1,758	1,758	1,758	1,758	1,758	1,758	1,758
Capital WIP	581	832	1,474	911	911	911	911
Total Investments	71	58	130	2,418	2,669	2,947	3,235
Curr. Assets, Loans&Adv.	6,888	8,923	10,512	11,393	17,738	25,638	38,621
Inventory	1,962	3,056	3,634	3,232	6,224	8,207	10,333
Account Receivables	2,336	4,170	4,452	6,089	7,915	10,271	13,100
Cash and Bank Balance	1,673	276	773	698	2,137	5,624	13,576
Loans and Advances	-	-	-	-	-	-	-
Other current assets	916	1,422	1,654	1,373	1,462	1,535	1,612
Curr. Liability & Prov.	1,979	2,807	3,559	3,868	5,329	6,326	7,593
Account Payables	1,861	2,647	3,353	3,629	5,070	6,045	7,294
Provisions	118	159	206	239	259	282	300
Net Current Assets	4,909	6,116	6,953	7,525	12,409	19,311	31,027
Appl. of Funds	16,528	19,172	22,398	26,730	32,167	38,867	49,711

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Income from Operations	12,201	15,663	21,306	26,755	37,350	47,834	60,743
Change (%)	(14.5)	28.4	36.0	25.6	39.6	28.1	27.0
Raw Materials	5,139	6,453	9,456	12,200	15,854	20,585	25,299
% of Sales	42.1	41.2	44.4	45.6	42.4	43.0	41.6
Employees Cost	1,222	1,474	1,689	1,804	2,608	3,342	4,242
% of Sales	10.0	9.4	7.9	6.7	7.0	7.0	7.0
Other Expenses	2,586	3,325	4,571	5,795	8,468	10,085	12,440
% of Sales	21.2	21.2	21.5	21.7	22.7	21.1	20.5
EBITDA	3,254	4,410	5,591	6,958	10,420	13,822	18,762
Margin (%)	26.7	28.2	26.2	26.0	27.9	28.9	30.9
Depreciation	782	969	1,420	1,780	2,198	2,481	2,659
EBIT	2,472	3,441	4,171	5,178	8,222	11,340	16,103
Interest Charges	269	325	183	169	299	295	252
Other Income	76	23	200	116	351	580	935
PBT bef. EO Exp.	2,279	3,139	4,189	5,124	8,274	11,625	16,786
EO Items	-	(139)	133	(34)	-	-	-
PBT after EO Exp.	2,279	3,000	4,322	5,091	8,274	11,625	16,786
Total Tax	62	848	706	1,138	2,013	2,825	4,038
Tax Rate (%)	2.7	28.3	16.3	22.4	24.3	24.3	24.1
Reported PAT	2,217	2,152	3,615	3,952	6,261	8,800	12,748
Adjusted PAT	2,217	2,251	3,504	3,979	6,261	8,800	12,748
Change (%)	4.2	1.5	55.7	13.5	57.4	40.6	44.9

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before Tax	2,279	3,000	4,322	5,091	8,274	11,625	16,786
Deprn. & Amort.	782	969	1,420	1,780	2,198	2,481	2,659
Net Interest Exp. / Inc. (-)	238	325	172	161	299	295	252
Inc (-) / Dec in WCap.	4	(2,070)	(890)	(630)	(3,446)	(3,416)	(3,764)
Others	188	(269)	(34)	33	-0	-	-0
Taxes Paid	(398)	(528)	(544)	(1,102)	(2,013)	(2,825)	(4,038)
Operating Cash Flow	3,092	1,427	4,446	5,333	5,312	8,161	11,895
Capex	(2,239)	(2,189)	(3,472)	(3,352)	(2,500)	(2,000)	(1,500)
Free Cash Flow	853	(762)	974	1,980	2,812	6,161	10,395
-Inc/dec in investments	(6,916)	598	(275)	(2,309)	(251)	(278)	(288)
Other	(332)	31	213	32	-	-	-
Investing Cash Flow	(9,487)	(1,561)	(3,534)	(5,629)	(2,751)	(2,278)	(1,788)
Inc/(dec) in capital	8,706	-	2,981	40	-	-	-
Dividend+Tax Thereon	(1,731)	(904)	(450)	(1,199)	(993)	(1,461)	(1,753)
Inc/dec in loans	1,320	608	(2,954)	1,471	50	(450)	(90)
Net Interest Exp. / Inc. (-)	(205)	(246)	(92)	(12)	(299)	(295)	(252)
Other assets	(1,007)	(125)	(122)	(113)	120	(190)	(60)
Financing Cash Flow	7,083	(667)	(637)	187	(1,122)	(2,396)	(2,155)
Inc / Dec (-) in Cash	689	(800)	275	(109)	1,439	3,487	7,952
Opening cash balance	361	1,050	249	536	441	1,880	5,367
Movement in Foreign currency translation reserve	-	-	12	14	-	-	-
Closing Cash Balance	1,050	250	536	441	1,880	5,367	13,319

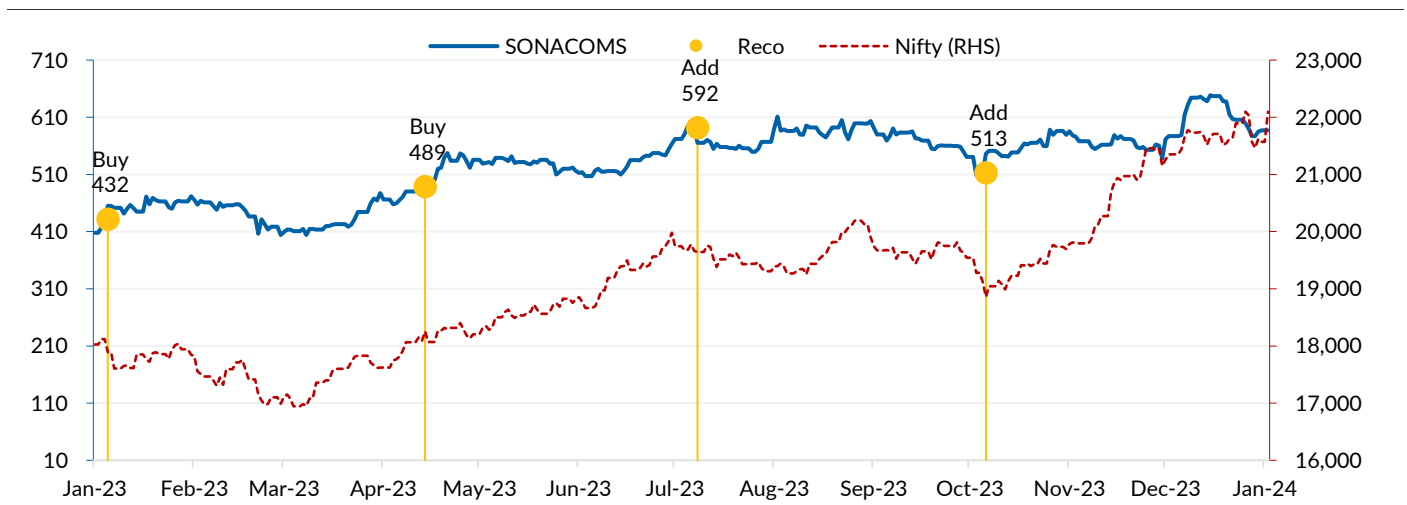
Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Basic (INR)							
EPS	3.9	3.9	6.0	6.8	10.7	15.0	21.8
Cash EPS	5.2	5.6	8.4	9.8	14.4	19.3	26.3
BV/Share	20.5	24.0	34.2	39.1	48.1	60.7	79.4
DPS	1.9	1.6	0.8	1.5	1.7	2.5	3.0
Valuation (x)							
P/E	149.8	147.6	96.7	85.3	54.2	38.6	26.6
P/BV	28.2	24.1	16.9	14.8	12.1	9.6	7.3
EV/Sales	27.3	21.4	15.9	12.7	9.0	7.0	5.3
EV/EBITDA	102.5	76.1	60.6	48.7	32.3	24.1	17.3
Dividend Yield (%)	0.3	0.3	0.1	0.3	0.3	0.4	0.5
FCF per share	1.0	0.9	1.5	(1.3)	1.7	3.4	4.8
Return Ratios (%)							
RoE	18.2	17.6	20.8	18.5	24.5	27.6	31.1
RoCE (post-tax)	19.7	19.3	20.7	18.7	24.4	25.4	28.6
RoIC	18.8	16.4	18.9	19.3	26.2	31.6	40.7
Working Capital Ratios							
Asset Turnover (x)	0.7	0.8	1.0	1.0	1.2	1.3	1.3
Inventory (Days)	58.7	71.2	62.2	44.1	60.8	62.6	62.1
Debtor (Days)	69.9	97.2	76.3	83.1	77.3	78.4	78.7
Creditor (Days)	47.4	72.7	50.9	45.9	52.9	54.3	56.2
Leverage Ratio (x)							
Current Ratio	3.5	3.2	3.0	2.9	3.3	4.1	5.1
Interest Cover Ratio	12.1	13.6	30.6	41.1	34.9	46.8	74.4
Net Debt/Equity	0.1	0.2	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)

Source- Company, YES Sec

Recommendation Tracker



Source - YES Sec

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The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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