

SONA BLW Precision Forging

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	SONACOMS IN
Equity Shares (m)	585
M.Cap.(INRb)/(USD\$)	366.7 / 4.4
52-Week Range (INR)	719 / 480
1, 6, 12 Rel. Per (%)	-13/-4/5
12M Avg Val (INR M)	1313

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	31.8	40.8	48.2
EBITDA (%)	28.3	28.6	28.7
Adj. PAT	5.2	6.9	8.2
EPS (INR)	8.9	11.7	14.0
EPS Gr. (%)	31.6	30.6	19.6
BV/Sh. (INR)	47.7	55.8	65.3

Ratios

Net D:E	0.1	0.1	0.0
RoE (%)	20.6	22.6	23.1
RoCE (%)	18.0	19.5	20.5
Payout (%)	33.4	31.4	31.5

Valuations

P/E (x)	69.9	53.5	44.8
P/BV (x)	13.1	11.2	9.6
EV/EBITDA (x)	40.6	31.2	26.1
Div. Yield (%)	0.5	0.6	0.7
FCF Yield (%)	1.0	1.0	1.6

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	29.7	29.7	33.0
DII	28.8	27.9	31.3
FII	32.9	32.9	24.7
Others	8.6	9.5	11.0

FII Includes depository receipts

CMP:INR625 **TP: INR630 (+1%)** **Neutral**

Operational performance in line

Pure ICE segment's revenue contribution dropped to 10% vs. 15% in FY23

- SONA BLW Precision Forging (SONACOMS)'s 4QFY24 operational performance was in line, while lower tax led to a PAT beat. It continues to focus on reducing its dependence on the pure ICE segment, as it now contributes just ~10% of the revenue vs. ~25% in FY21. Further, management's guidance of an increase in R&D spending by 100bp in FY25 indicates its focus on product development and continuous innovation.
- We broadly retain our EPS estimates. The stock trades at ~54x/45x FY25E/26E EPS which we believe factors in its strong EV order book as well as its superior earnings and return profile. **We hence reiterate our Neutral rating on the stock with a TP of INR630 (based on ~45x Mar'26E consol. EPS).**

Adjusted EBITDA margin, at 28.9%, improves 180bp YoY

- SONACOMS' 4QFY24 revenue/EBITDA/adj. PAT grew ~19%/23%/20% YoY to INR8.8b/INR2.5b/INR1.5b. The BEV revenue rose 34% YoY to INR2.7b (32% of total revenue), whereas the ICE revenue grew 13% YoY. For FY24, the company's revenue/EBITDA/adj. PAT grew 19%/28%/29% YoY.
- Gross margin expanded 210bp YoY to 56.4% (est. 58.4%) due to a better mix and lower input costs.
- Higher-than-estimated employee expenses (+210bp YoY; as a % of sales) due to the ESOP scheme (INR80m impact) resulted in an EBITDA margin of 28% (+100bp YoY vs. est. 28.5%). Without the ESOP scheme impact, margin would have been 28.9%. There was also a 35-40bp impact due to higher freight costs. EBITDA grew 23% YoY to INR2.5b (est. INR2.4b).
- Further, lower tax led to a PAT beat, which stood at INR1.5b (vs. est. INR1.4b).
- The Board declared a final dividend of INR1.53/share for FY24 (total dividend of INR3.06/share in FY24 vs. INR1.53/share in FY23).
- The FCF stood at INR3.7b in FY24 (vs. INR2.1b for FY23) aided by a better operating cash flow of INR6.9b (vs. INR5.3b in FY23). Capex for FY24 stood at INR3.2b, similar to the FY23 levels.

Highlights from the management commentary

- The company has added 12 new EV programs, taking the tally to 54 programs now; it has also added five new customers during the year. The revenue from pure ICE dependence continues to reduce steadily to 10% in FY24 from 25% in FY21.
- The BEV revenue for 4QFY24 was INR2.73b (+34% YoY), contributing 32% of the revenue. The BEV revenue for FY24 was INR8.9b, and the mix was ~29% in FY24 vs. 26%/14% in FY23/21.
- Management guided that it will increase its R&D spending by 100bp to expedite the existing projects and focus on new product development. It spent ~2.4% of its revenue towards R&D in FY24. Further, it is looking to spend 3.1%-3.4% in FY25.
- Capex for the next three years will be close to INR10-12b.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- Despite the volatile geopolitical scenario impacting different key geographies globally, SONACOMS reported a PAT growth of 32% YoY in FY24, driven by healthy order execution and its focus on the growing EV segment. SONACOMS remains a good proxy play for the global electrification trend, with a ~29% revenue mix from EVs and a ~79% mix in the order book. Moreover, its focus on expanding the product portfolio, global scale, and customer base should translate into strong earnings growth and healthy capital efficiency.
- However, valuations at ~54x/45x FY25E/FY26E consol. EPS largely factor in these positives. **Reiterate Neutral with a TP of INR630 (based on ~45x Mar'26E consol. EPS).**

Consol. Quarterly Performance

Y/E March	FY23				FY24				FY23	FY24	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE
Net operating revenues	5,892	6,574	6,850	7,440	7,322	7,908	7,766	8,853	26,756	31,848	8,388
Change (%)	17.7	12.2	38.6	35.3	24.3	20.3	13.4	19.0	25.6	19.0	12.7
EBITDA	1,425	1,657	1,862	2,014	2,034	2,233	2,273	2,481	6,958	9,021	2,392
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	29.3	28.0	26.0	28.3	28.5
Depreciation	400	429	470	481	511	534	559	598	1,780	2,202	562
EBIT	1,025	1,228	1,392	1,533	1,523	1,699	1,714	1,883	5,178	6,819	1,830
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	22.1	21.3	19.4	21.4	21.8
Interest	29	43	51	46	53	60	73	71	169	258	59
Non-Operating Income	10	28	33	45	54	61	50	75	116	239	50
PBT	1,006	1,213	1,373	1,498	1,495	1,641	1,690	1,886	5,091	6,713	1,822
Effective Tax Rate (%)	24.6	23.7	22.0	20.0	25.1	24.4	21.0	21.5	22.4	22.9	25.6
Adjusted PAT	758	925	1,071	1,232	1,142	1,286	1,336	1,481	3,979	5,242	1,356
Change (%)	5.4	4.9	23.9	35.1	50.6	39.0	24.7	20.2	17.1	31.7	10.1
Cost Break-up											
RM Cost (% of sales)	45.5	47.0	44.2	45.7	43.1	44.9	40.9	43.6	45.6	43.1	41.6
Staff Cost (% of sales)	7.3	6.7	7.0	6.1	6.7	7.0	9.4	8.2	6.7	7.9	9.2
Other Cost (% of sales)	23.0	21.1	21.6	21.1	22.4	19.9	20.4	20.2	21.7	20.7	20.7
Gross Margins (%)	54.5	53.0	55.8	54.3	56.9	55.1	59.1	56.4	54.4	56.9	58.4
EBITDA Margins (%)	24.2	25.2	27.2	27.1	27.8	28.2	29.3	28.0	26.0	28.3	28.5
EBIT Margins (%)	17.4	18.7	20.3	20.6	20.8	21.5	22.1	21.3	19.4	21.4	21.8

E:MOFSL Estimates

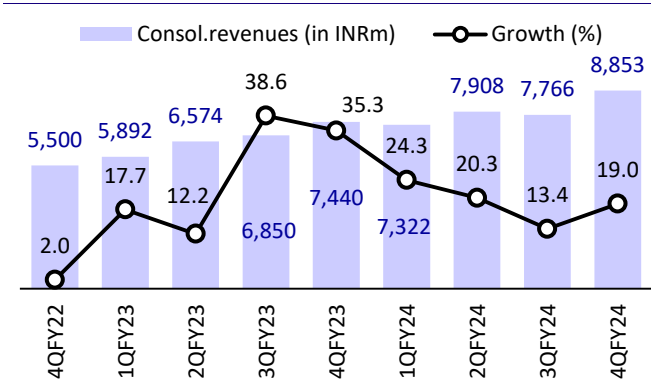


Key takeaways from the management interaction

- **Net order book increased to INR226b as of end-FY24 from INR215b/INR140b in FY23/FY21.**
 - Added INR51b of new orders during the year. The company won 39 programs and added five new customers in FY24.
 - The EV contribution to the order book stood at 79%.
- The BEV revenue for 4QFY24 was INR2.73b (+34% YoY), contributing 32% of the revenue. The BEV revenue for FY24 was INR8.9b, and the mix was ~29% in FY24 vs. 26%/14% in FY23/21.
 - The company has added 12 new EV programs, taking the tally to 52 programs now; it has also added four new EV customers during the year.
 - The revenue from pure ICE dependence continues to reduce steadily to 10% in FY24 from 25% in FY21.
- **Global market share:** Differential gears stood at ~8.1% in CY23 vs. 7.2% in CY22. Starter Motors stood at 4.2% in CY23 vs. 4.1% in CY21.

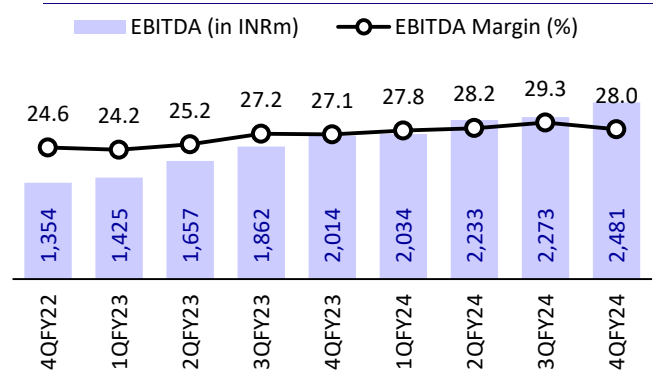
- **Management guided that it will increase its R&D spending by 100bp** to expedite the existing projects and focus on new product development. It spent ~2.4% of its revenue towards R&D in FY24. Further, it is looking to spend 3.1%-3.4% in FY25. About 70% of it will be towards existing product areas and adjacencies, 20% for new areas and 10% for moonshots, where the probability of success is less.
- **Novelic:** Seeing good traction in product side. The company has allocated several resources to R&D or to new product developments, for which it expects revenue will be generated in the medium term but profitability will get impacted for the next couple of quarters.
- It has set up a plant in Mexico due to- i) the customer’s expectation of a nearby supplier with prices close to an Indian supplier, and to comply with the USMCA. Many EV programs are coming to Mexico.
- Capex for the next three years will be close to INR10-12b.

Exhibit 1: Trend in revenue



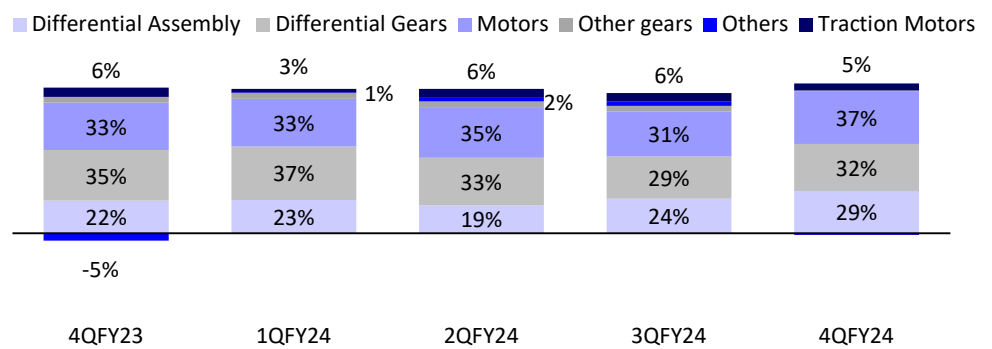
Source: Company, MOFSL

Exhibit 2: EBITDA and EBITDA margin trends



Source: Company, MOFSL

Exhibit 3: Revenue breakup



Source: Company, MOFSL

Valuation and view

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 29% of revenue in FY24 (vs. 26%/25%/14% in FY23/FY22/FY21) and accounted for 79% of the order book.
- **Unique positioning of increasing EV sales, global scale, and a strong financial profile:** SONACOMS's 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 (8.1% in CY23 v/s 7.2% in CY22), and starter motors (4.2% in CY23 v/s 4.1% in CY22). More importantly, it is a truly global player with a presence across the key markets of North America (~40%), India (~28%), the EU (~26%), Asia (excl India; ~5%), and RoW (~1%).
- **Investing in R&D for future growth:** Its approach is to own the technology to capture 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 the 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 who 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.
- **Strong growth ahead:** SONACOMS is geared for faster growth than the underlying industry, 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. SONACOMS is foraying into a new business vertical of sensor and software. While it will not be a meaningful addition to its financials in the near term, we believe the acquisition is in the right direction strategically, as it will add a new revenue stream beyond its driveline and motor businesses. We estimate a consolidated revenue/EBITDA/PAT CAGR of 23%/24%/25% over FY24-FY26 and RoE expansion of 250bp (over FY24) to ~23.1% by FY26.
- **Valuation and view:** We broadly retain our EPS estimates. SONACOMS is firmly back on a strong growth path led by a recovery in the underlying markets and a strong order book. SONACOMS remains a good proxy play for the global electrification trend, with a ~29% revenue mix from EVs and a ~79% mix in the order book. Moreover, its focus on expanding the product portfolio, global scale, and customer base should translate into strong earnings growth and healthy capital efficiency. However, valuations at 54x/45x FY25E/FY26E factors in these positives. **Reiterate Neutral with a TP of INR630 (based on ~45x Mar'26E consol. EPS).**

Exhibit 4: Revisions to our estimates

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	40,826	40,832	0.0	48,170	48,207	-0.1
EBITDA	11,667	11,756	-0.8	13,847	13,914	-0.5
EBITDA (%)	28.6	28.8	-20bp	28.7	28.9	-10bp
Net Profit	6,851	6,933	-1.2	8,197	8,361	-2.0
EPS (INR)	11.7	11.8	-1.4	14.0	14.3	-2.1

Key operating indicators

Exhibit 5: Expect strong revenue growth over FY24-26E largely driven by strong traction in BEV DA business

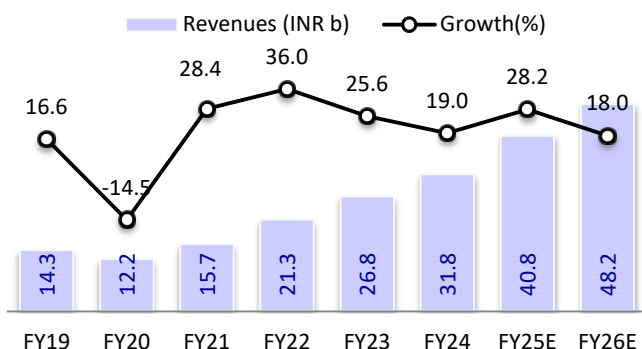


Exhibit 6: EBITDA margin to expand due to a better mix and operating leverage

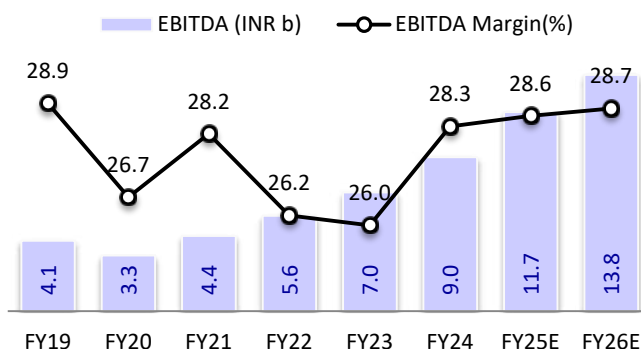


Exhibit 7: Expect 25% PAT CAGR over FY24-26E

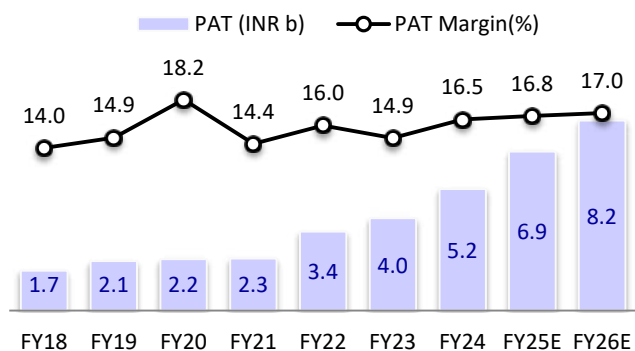


Exhibit 8: ROCE to improve substantially by FY26E

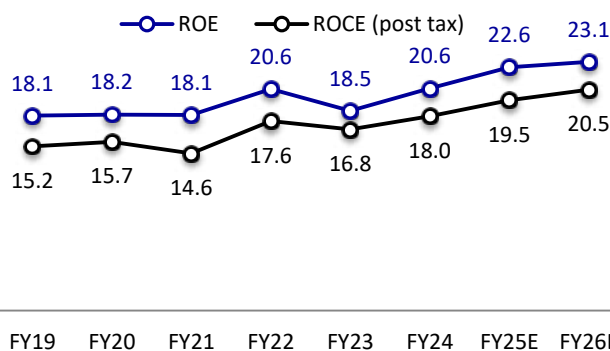


Exhibit 9: Capex to remain at an elevated level from FY25E

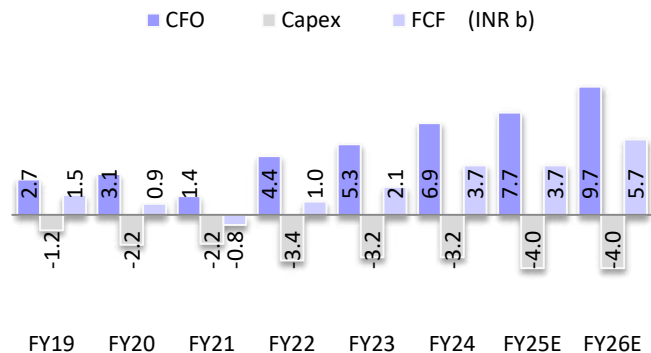
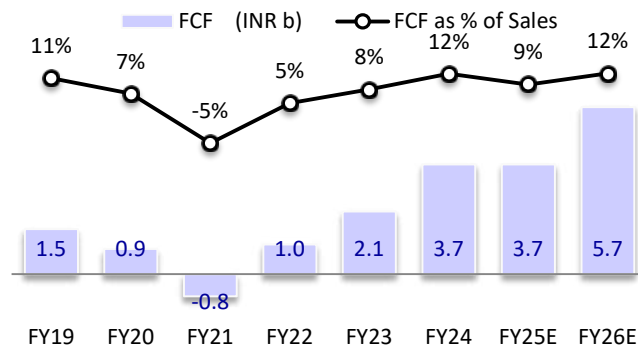


Exhibit 10: FCF should continue to improve



Financials and valuations

Income Statement								(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Net operating income	14,277	12,201	15,663	21,306	26,756	31,848	40,826	48,170	
Change (%)	16.6	-14.5	28.4	36.0	25.6	19.0	28.2	18.0	
EBITDA	4,122	3,254	4,410	5,591	6,958	9,021	11,667	13,847	
EBITDA Margin (%)	28.9	26.7	28.2	26.2	26.0	28.3	28.6	28.7	
Depreciation	722	782	969	1,420	1,780	2,202	2,627	3,108	
EBIT	3,400	2,472	3,441	4,171	5,178	6,819	9,041	10,739	
EBIT Margin (%)	23.8	20.3	22.0	19.6	19.4	21.4	22.1	22.3	
Interest cost	198	269	325	183	169	258	208	158	
Other Income	58	76	23	200	116	239	303	348	
Non-recurring Exp/(Inc)	0	0	139	-267	34	87	0	0	
PBT after EO	3,260	2,279	3,000	4,456	5,091	6,713	9,135	10,929	
Effective Tax Rate (%)	34.7	2.7	28.3	18.9	22.4	22.9	25.0	25.0	
Reported PAT	2,129	2,217	2,152	3,615	3,953	5,178	6,851	8,197	
Adj. PAT	2,129	2,217	2,251	3,399	3,979	5,245	6,851	8,197	
Change (%)	24.1	4.2	1.5	51.0	17.1	31.8	30.6	19.6	

Balance Sheet								(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Sources of Funds									
Share Capital	277	472	5,730	5,844	5,854	5,864	5,864	5,864	
Reserves	12,322	11,308	7,309	14,159	17,048	20,639	25,341	30,959	
Minority interest	0	0	0	0	0	1,498	1,498	1,498	
Net Worth	12,599	11,779	13,039	20,003	22,902	28,001	32,704	38,322	
Deferred Tax	1,523	1,077	1,260	884	876	1,261	1,261	1,261	
Loans	1,353	2,614	3,052	704	2,175	2,331	1,831	1,331	
Other non-current liabilities	182	534	721	698	661	2,200	2,200	2,200	
Capital Employed	15,658	16,004	18,073	22,288	26,614	33,793	37,996	43,114	
Application of Funds									
Gross Fixed Assets	4,261	5,494	6,395	9,382	12,889	16,564	22,700	26,700	
Less: Depreciation	753	1,230	1,353	2,189	3,245	5,049	7,250	9,933	
Net Fixed Assets	3,509	4,264	5,042	7,193	9,644	11,515	15,450	16,767	
Intangibles	5,387	5,489	5,948	5,995	5,979	6,375	6,375	6,375	
Amortisation	573	860	582	1,105	1,505	1,903	2,328	2,753	
Net Intangibles	4,814	4,629	5,366	4,890	4,474	4,472	4,047	3,622	
Capital WIP	266	896	832	1,474	911	3,636	1,500	1,500	
Goodwill on consolidation	1,758	1,758	1,758	1,758	1,758	3,518	3,518	3,518	
Investments	457	19	0	65	2,326	417	417	417	
Curr.Assets, L & Adv.	6,202	6,940	8,750	10,577	11,485	15,090	19,382	24,744	
Inventory	1,838	1,962	3,056	3,634	3,229	3,475	4,455	5,256	
Sundry Debtors	2,733	2,336	4,170	4,452	6,089	6,483	8,310	9,805	
Cash & Bank Balances	615	1,673	276	773	698	2,742	3,927	6,729	
Loans & Advances	1	5	15	65	92	110	112	132	
Others	1,015	963	1,234	1,654	1,376	2,281	2,579	2,822	
Current Liab. & Prov.	2,748	2,503	3,676	3,669	3,984	4,856	6,318	7,455	
Sundry Creditors	1,393	1,162	2,241	2,190	2,489	2,981	3,915	4,619	
Other Liabilities	1,227	1,223	1,275	1,274	1,256	1,545	1,981	2,337	
Provisions	128	118	159	206	239	330	423	499	
Net Current Assets	3,454	4,437	5,075	6,908	7,501	10,235	13,064	17,290	
Miscellaneous Expenditures	1,399	0							
Application of Funds	15,658	16,004	18,073	22,288	26,614	33,793	37,996	43,114	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	76.8	47.0	3.9	5.8	6.8	8.9	11.7	14.0
EPS Growth (%)	24.1	-38.8	-91.6	48.0	16.9	31.6	30.6	19.6
Cash EPS	102.9	63.6	5.4	8.6	9.8	12.6	16.2	19.3
Book Value per Share	454.6	249.8	22.8	34.2	39.1	47.7	55.8	65.3
DPS	0.0	0.0	18.9	0.8	1.5	3.0	3.7	4.4
Payout (Incl. Div. Tax) %	0.0	0.0	504.1	12.2	22.2	33.9	31.4	31.5
FCF (INR/sh)	55.2	18.1	-1.3	1.7	3.6	6.4	6.4	9.7
Valuation (x)								
P/E	8.1	13.3	159.2	107.6	92.0	69.9	53.5	44.8
EV/EBITDA	4.3	9.4	81.9	65.4	52.5	40.6	31.2	26.1
EV/Sales	1.2	2.5	23.1	17.2	13.7	11.5	8.9	7.5
Price to Book Value	1.4	2.5	27.5	18.3	16.0	13.1	11.2	9.6
Dividend Yield (%)	0.0	0.0	3.0	0.1	0.2	0.5	0.6	0.7
FCF Yield (%)	8.8	2.9	-0.2	0.3	0.6	1.0	1.0	1.6
Profitability Ratios (%)								
RoE	18.1	18.2	18.1	20.6	18.5	20.6	22.6	23.1
RoCE (post-tax)	15.2	15.7	14.6	17.6	16.8	18.0	19.5	20.5
RoIC	16.9	17.3	16.2	18.3	18.9	21.2	22.9	24.2
Turnover Ratios								
Debtors (Days)	70	70	97	76	83	74	74	74
Inventory (Days)	47	59	71	62	44	40	40	40
Creditors (Days)	36	35	52	38	34	34	35	35
Working Capital (Days)	81	94	116	101	93	80	79	79
Asset Turnover (x)	1.0	0.8	0.9	1.1	1.1	1.1	1.1	1.2
Leverage Ratio								
Net Debt/Equity (x)	0.0	0.1	0.2	0.0	0.0	0.0	-0.1	-0.2

E: MOFSL Estimates

Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	3,260	2,279	3,000	4,456	5,091	6,713	9,135	10,929
Depreciation & Amort.	722	782	969	1,420	1,780	2,202	2,627	3,108
Direct Taxes Paid	-1,164	-398	-528	-544	-1,102	-1,553	-2,284	-2,732
(Inc)/Dec in Working Capital	-247	4	-2,070	-890	-630	-644	-1,644	-1,423
Interest/Div. Received	-30	-31	-29	-179	-112	-209	-303	-348
Other Items	149	457	85	183	307	418	208	158
CF from Oper. Activity	2,689	3,092	1,427	4,446	5,333	6,928	7,739	9,691
Extra-ordinary Items	0	0	0	0	0	0	0	0
CF after EO Items	2,689	3,092	1,427	4,446	5,333	6,928	7,739	9,691
(Inc)/Dec in FA+CWIP	-1,160	-2,239	-2,180	-3,438	-3,196	-3,191	-4,000	-4,000
Free Cash Flow	1,529	853	-753	1,008	2,136	3,736	3,739	5,691
Interest/dividend received	33	39	22	179	31	204	303	348
(Pur)/Sale of Invest.	-180	-7,286	598	-275	-2,450	-1,724	0	0
CF from Inv. Activity	-1,307	-9,487	-1,561	-3,534	-5,615	-4,711	-3,698	-3,653
Inc/(Dec) in Debt	-249	1,320	504	-2,954	1,471	94	-500	-500
Interest Paid	-175	-205	-246	-92	-12	-173	-208	-158
Dividends Paid	-1,032	-1,532	-904	-450	-1,199	-1,793	-2,149	-2,578
Others	0	0	-21	-170	-113	84	0	0
CF from Fin. Activity	-1,456	7,083	-667	-625	187	-1,747	-2,857	-3,236
Inc/(Dec) in Cash	-74	689	-800	287	-95	469	1,185	2,802
Add: Beginning Balance	435	361	1,050	249	536	441	910	2,095
Closing Balance	361	1,050	249	536	441	910	2,095	4,898

E: MOFSL Estimates

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NOTES

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UNDER REVIEW	Rating may undergo a change
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