

7th August 2023

Sona BLW Precision Forgings Ltd. – BUY

CMP : Rs. 556
Target Price : Rs. 680
Upside : 22 %+
Stop Loss : Rs. 498 (Closing basis)

Investment Thesis

- EV push to be the growth driver for SONA:** Sona BLW Precision Forgings Ltd. (SONA) generated 48% of its revenues from EV supplies (Battery EVs at 26% and micro-hybrid / hybrid at 22%) in Q1FY24. The order book stands strong at ₹22,000 Cr. (8.2x of FY23 revenue). In the first quarter of FY24, 78% of the order book is attributed to EVs. The company has expanded its EV powertrain capabilities by developing the Electronically Locking Differential (EDL) and secure an order for an electric SUV of a Global EV OEM. Additionally, SONA has also entered the Electric Commercial Vehicle (e-CV) space. Domestically, EV preference among consumers expected to remains strong and we believe it to grow further, specifically in e-2W which will boost company's sales.
- Recent business development:** In May 2023, SONA has inked a technology license agreement with Equipmake, a UK-based technology company. Under this agreement, Equipmake will license certain patented spoke motor and inverter technology to SONA for manufacturing and sale of EV Powertrains, subsystems, and components for electric cars, buses, CV and OHV.
- SONA capturing market opportunity in Autonomous space:** SONA forayed into Advanced Driver Assistance Systems (ADAS) sensors market with an agreement to acquire a 54% equity stake in NOVELIC, a Serbia based company and a leading provider of mmWave radar sensors used in like Automatic Emergency Braking, Adaptive Cruise Control, Cross-Traffic Alert and Blind Spot Monitoring. According to Mckinsey report, by CY30, the ADAS sensor market will grow to \$ 43 billion, dominated by radar sensors, which will contribute \$14 billion.
- Expanding product portfolio:** SONA is one of the leading manufacturers of traction motors due to its portfolio of high efficiency/torque density motors across BLDC and PMSM motors. SONA, currently, has an installed capacity of ~250K units p.a. for hub motors and ~75-100K units p.a. for PMSM motors at its Chennai plant. In FY23, SONA announced an order win of ₹ 400 Cr. schedule to deliver by FY25 for the PAS-IMCM. SONA, a supplier of EV traction motors for TVS and Ampere, reached 100K capacity in August and plans to expand its capacity at its Chennai plant.
- Increasing Market share Globally:** SONA has increased its global market share of differential gears and starter motors to 7.2% and 4.1%, respectively in CY22 from 5.0% and 3.0%, respectively in CY20. As part of the strategy, SONA intends to penetrate the European market by supplying differential assemblies and differential gears.
- Growth CAPEX:** Over the next three years, SONA is anticipating a significant growth in its traction motors business, which it expects to surpass the starter motor business. To accommodate this expansion, SONA is currently increasing its capacity for traction motors from 400,000 to 600,000 and investing approximately ₹1 billion to establish a capacity of 500,000 for PCB in Chennai.

Financials

- SONA consolidated revenue for Q1FY24 was at ₹ 732.17 Cr. grew by 24.3% on a YoY basis and moderated by 1.6% on a QoQ basis. Moderation in revenue on QoQ basis is due to e-2W industry facing issues around the FAME-II subsidy cut.

Particulars	FY20	FY21	FY22	FY23	FY24E
Revenue (Rs in Crs)	1,037.98	1,566.30	2,130.64	2,675.60	3,558.55
EBITDA (Rs in Crs)	242.29	441.02	559.1	695.81	960.81
PAT (Rs in Crs)	365.29	215.16	361.54	395.30	587.72
Adj. EPS (Rs.)	6.37	3.76	6.19	6.75	10.04
PE Multiple (x)	N/A	N/A	109.77	61.18	67.80
RoE (%)	53.34	16.88	21.49	18.47	20.42

Stock Data

Market Cap (Rs. Crs)	32,549
Market Cap (\$ Mn)	3,933.65
Shares O/S (in Mn)	585.41
Avg. Volume (3 month)	3,74,049
52-Week Range (Rs.)	607 / 398

Shareholding Pattern

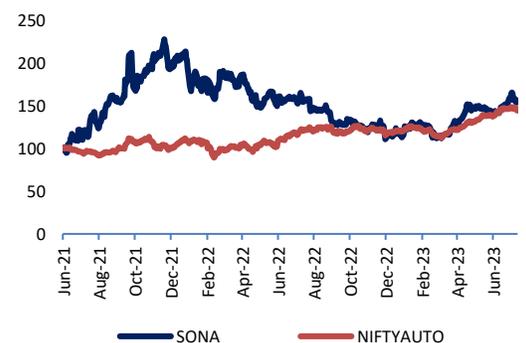
Promoters	29.76%
FII's	31.68%
Institutions	28.20%
Others (incl. body corporate)	10.36%

Key Ratios

Div Yield	0.5%
TTM PE	74.4x
ROE	18.3%
TTM EPS (Rs.)	7.38/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	9.4	25.4	(3.2)
NIFTYAUTO	7.4	10.8	(21.6)



- SONA has recorded highest ever EBITDA for the quarter at ₹ 203.4 Cr., grew by 42.7% YoY / ~1% QoQ.
- EBITDA margin expanded by 359 bps YoY / 70 bps QoQ to 27.78% in Q1FY24. Growth in margin was driven by product mix as well as operating leverage. Consequently, PAT came in at ₹112 Cr., up 47.7% YoY.
- On full-year basis, in FY23, SONA revenue from operations grew by 25.58% YoY to ₹ 2675.6 Cr. whereas EBITDA was at ₹ 695.8 Cr., up by 24.5% YoY and margins were at 26.01%. PAT came in at ₹ 395.3 Cr., up by 9.34% with EPS pegged at ₹ 6.8/share.
- Management expects its EBITDA margin to remain in a range of 25% to 27% over the medium term on annual basis.

Key Business Highlights

- SONA BLW Precision Forgings Ltd. (SONA) is an esteemed automotive technology company that specializes in crafting precision forged automotive components for global and domestic OEMs. Its extensive product range comprises of differential assemblies, differential gears, starter motors, BSG systems and EV traction motors. It caters to a diverse variety of vehicles, ranging from passenger vehicles, commercial vehicles and off-highway vehicles to electric vehicles, e-LCV, and e-2W & e-3W. It has 9 manufacturing facilities across India, the USA, Mexico, and China.
- SONA is truly a global player with a vast geographical presence across the key markets of North America (43%), India (28%), Europe (23%), Asia (excluding India) (5%) and Rest of World (1%).
- Despite orders being executed, the company's order book remains stable. SONA has recently bagged four new orders worth ₹13bn, increasing the total order book to ₹220bn. It's worth mentioning that three of these new orders are related to EVs.
- In Q4FY23, SONA received a new order from a North American-based OEM of CVs, amounting to ₹ 500 Cr. The production for this order is set to commence in Q4FY24. Additionally, in Q1FY24, SONA has been awarded another order from the same customer, valued at ₹ 405 Cr. The production for this order is expected to begin in Q4FY25.
- SONA generated a robust net cash from operations of ₹ 534.7 Cr. in FY23, as well as ₹ 199.6 Cr. in free cash flow, which was used for whole capex of ₹ 335.1 Cr. in FY23. The management has also projected a capex of ₹ 1,000-1100 Cr. for the next three years.
- At present, no single customer accounts for over 20% of revenue. Moving forward, SONA aims to decrease this percentage to 15% in order to mitigate customer concentration.

Valuation

SONA currently trades at 74.4x / 42.3x of trailing PE / EBITDA multiple as against its median PE / EBITDA multiple of 93.1x / 55.0x. We expect revenue to grow by more than 30%, while the EBITDA margin remain stable for FY24E which would translate to healthy EBITDA growth. Manufacturing excellence, execution prowess and bright prospects from the EV transition provide us the confidence that SONA will be a ideal pick for wealth generation.

We ascribe a BUY rating on SONA with a target price of ₹ 680, a upside of 22%+.

Risk & Concern

- Demand for starter motors decline due to rise in demand for EVs. However, company is de-risking its portfolio by focusing on traction motors.
- Increasing competitiveness in Cold & Warm forging may impact SONA.
- Cut in subsidy under the FAME scheme for e-2W may impact revenue of SONA.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. Crs)

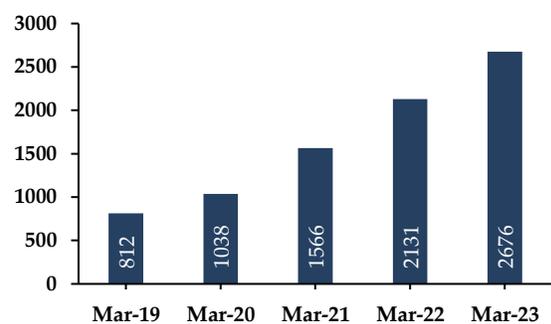


Figure 2: EBITDA & EBITDA Margin Trend

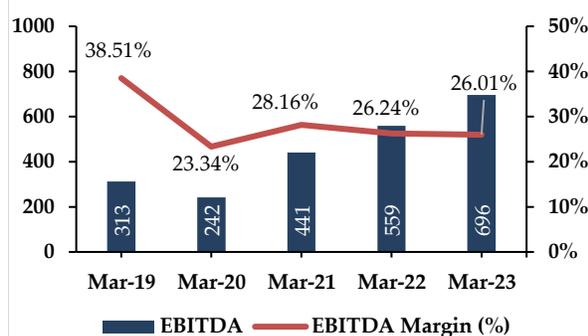


Figure 3: Product-wise Revenue (Q1FY24)

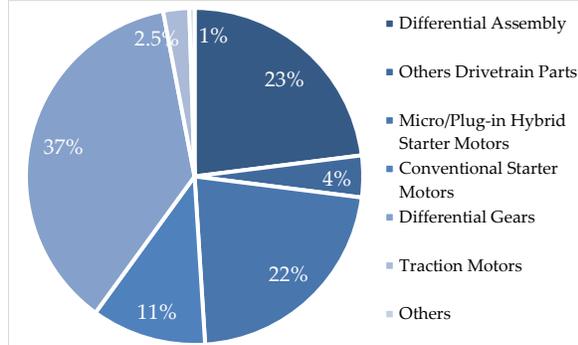
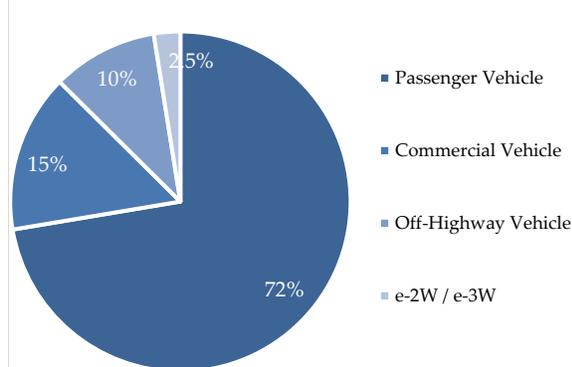


Figure 4: Vehicle-wise Revenue (Q1FY24)



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