

Sona BLW Precision Forgings Ltd

Decent quarter; Downgrade to Neutral

Valuation and View

Sona BLW (SONACOMS) 4QFY24 results were better as Revenue/EBITDA/Adj.PAT exceeded our estimates by 5-7%. EBITDA margins though were in-line at 27.9%, it expanded 100bp YoY (-180bp QoQ), led by favorable product mix and operational efficiencies despite higher freight rates (35-40bp impact) and ESOP cost of Rs80m in 4QFY24 (vs Rs4m in 4QFY23). The management indicated UAW strike impact is reversed in 4QFY24 (as guided in 3Q). On the positive side, the key highlight of the quarter was, the resilient margins despite multiple headwinds and management comments around no delay in order book ramp-up for BEV given declining EV shift. On the other hand, adjusted new order addition were slightly weaker at ~Rs12b (vs ~Rs20b/Rs13b/Rs5b/Rs42b/Rs4b/Rs28b/Rs6b orders added in previous 7 quarters). Co's overall orderbook stands at Rs226b (vs Rs240b QoQ and Rs215b/Rs186b in FY23/FY22). EV revenue mix during 4QFY24 were at 32% (vs 30%/27%/26% in 3QFY/2QFY24/1QFY24).

We are building in stable margins in FY25E given near term cost upfronting in Novellic and ongoing challenges (freight etc.) and expansion in FY26E. This is primed on favorable revenue mix coupled with operating leverage benefits. Hence, we expect revenue/EBITDA/Adj. PAT to grow 31-40% CAGR over FY24-26E. We have cut FY25/26 consol EPS by 4-4.5% to factor in for slow domestic growth (led by CV and OHV) and downgrade the stock to Neutral (vs ADD) with TP at Rs654 (vs Rs684) given limited upside led by recent valuations expansion.

Result Highlights – Margins resilient given multiple challenges

- Consol revenues grew 19.1% YoY (+13.1% QoQ) at Rs8.84b (est Rs8.3b, cons Rs8.4b), outperforming underlying light vehicle industry growth of ~8% in key markets of North America, India and Europe.
- Gross margins expanded 220bp YoY/ -300bp QoQ at 56.4% (est 58.5%). The QoQ decline is largely led by product mix impact. Consequently, EBITDA came in better at Rs2.47b (+23.5% YoY/ +6.2% QoQ, est Rs2.35b, cons Rs2.39b) led to margins expansion of +100bp YoY/ -180bp QoQ at 27.9% (est 28.2%, cons 28.5%). Adjusted for one-offs of higher freight cost (35-40bp) and staff cost (Rs80m ESOP), margins would be resilient.
- Led by steady operating performance, Adj.PAT came in at Rs1.48b (+20.9% YoY/ +10.8% QoQ, est Rs1.37b, cons Rs1.38b).
- FY24 performance – Revenue/EBITDA/Adj.PAT grew ~19%/29.7%/31.8% to Rs31.8b/Rs9b/Rs5.2b.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	8,841	8,337	8,411	6.0	5.1	SONACOMS 4QFY24 results were better to our and street estimates.
EBITDA	2,470	2,353	2,398	5.0	3.0	
EBITDA margins %	27.9	28.2	28.5	-30bp	-60bp	
Adjusted PAT	1,481	1,376	1,380	7.6	7.3	

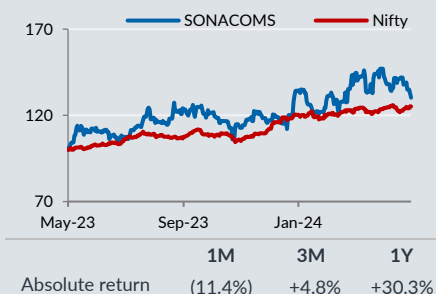
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 626
Target Price	: Rs 654
Potential Return	: +4.6%

Stock data (as on Apr 30, 2024)

Nifty	22,605
52 Week h/l (Rs)	719 / 483
Market cap (Rs/USD mn)	3,73,479 / 4,477
Outstanding Shares (mn)	586
6m Avg t/o (Rs mn):	1,009
Div yield (%):	0.4
Bloomberg code:	SONACOMS IN
NSE code:	SONACOMS

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	29.7%
FII+DII	60.8%
Others	9.5%

Δ in stance

(1-Yr)	New	Old
Rating	Neutral	ADD
Target Price	654	657

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	12.1	17.8
EPS (Old)	12.6	18.6
% change	(4.3%)	(4.5%)

Financial Summary

Y/E Mar (Rs bn)	2024	2025E	2026E
Sales	31.8	41.4	54.9
EBITDA	9.0	11.8	16.2
Adj. PAT	5.2	7.1	10.4
EPS (INR)	8.9	12.1	17.8
EPS Gr. (%)	31.6	35.3	47.0
BV/Sh (INR)	47.7	57.4	72.1
RoE (%)	20.6	23.0	27.5
RoCE (%)	20.7	21.3	25.3
P/E (x)	69.9	51.7	35.2
P/BV (x)	13.1	10.9	8.7
EV/EBITDA (x)	40.6	30.8	22.4
Div. Yield (%)	0.2	0.4	0.5

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Exhibit 2: Quarterly snapshot

Y/E Mar (Rs m)	Q4FY24	Q4FY23	YoY chg (%)	Q3FY24	FY24	FY23	YoY chg (%)
Net Revenues	8,841	7,426	19.1	7,818	31,848	26,550	20.0
Raw Materials	3,858	3,398	13.5	3,177	13,741	12,200	12.6
% of Net Sales	43.6%	45.8%		40.6%	43.1%	45.9%	
Personnel	728	455	59.8	732	2,501	1,804	38.7
% of Net Sales	8.2%	6.1%		9.4%	7.9%	6.8%	
Manufacturing & Other Exp	1,785	1,572	13.5	1,583	6,584	5,795	13.6
% of Net Sales	20.2%	21.2%		20.3%	20.7%	21.8%	
Total Expenditure	6,371	5,426	17.4	5,493	22,827	19,798	15.3
EBITDA	2,470	2,000	23.5	2,325	9,021	6,752	33.6
EBITDA Margin (%)	27.9%	26.9%		29.7%	28.3%	25.4%	
Depreciation	598	481	24.4	559	2,202	1,781	23.7
EBIT	1,871	1,519	23.2	1,766	6,819	4,971	37.2
Interest Expenses	71	46	54.4	73	258	169	52.5
Non-operating income	86	59		(2)	240	322	(25.5)
Extraordinary Income	-	34		-	87	34	
Extraordinary Expenses	0	0		0	-	-	
PBT	1,886	1,498	25.9	1,690	6,713	5,090	31.9
Tax-Total	405	300	35.1	354	1,535	1,138	34.9
Tax Rate (%) - Total	21.5%	20.0%		21.0%	22.9%	22.4%	
Reported PAT	1,481	1,198	23.6	1,336	5,178	3,952	31.0
Adj. PAT	1,481	1,225	20.9	1,336	5,243	3,979	31.8
PAT Margin	16.7%	16.5%		17.1%	16.5%	15.0%	

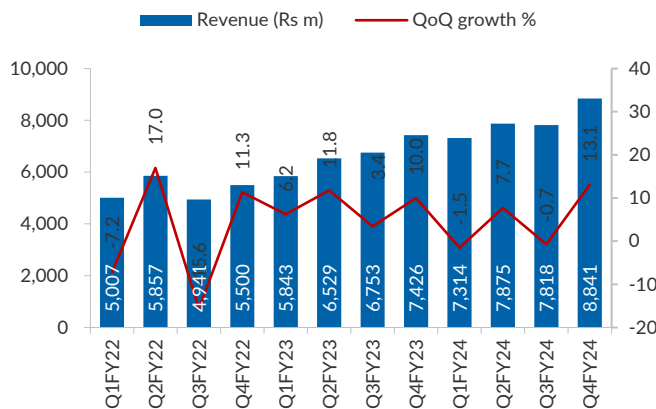
Source- Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Revenue share from BEV continues to drive overall growth in FY24 at Rs8.85b (+1.3x YoY) with its share in revenues increased to 32%/29%/26% in 4QFY24/FY24/FY23 of revenues.
 - Cumulative number of EV programs awarded increased from 42 in FY23 to 54 in FY24 with 8 new products in 3 years which added ~Rs100b in order book.
 - Of the total 54 programs - ~11 in fully ramp up production, ~16 in ramp-up stage and ~27 not yet part of production.
- Net order book increased to Rs226b (vs Rs240b in 3QFY24) of which Rs26b orders were consumed while Rs12b of orders added in 4QFY24. EV account for ~79% of OB at Rs179b.
 - In 4QFY24, added one new EV program to supply differential assemblies (~Rs9-10b) to an existing customer in North America and balance Rs3b from non-EV side.
 - Overall, added ~12 new EV programs and 4 new EV customers during FY24, further diversifying EV order book.
- **EV penetration** – decline in ICE in China has led co to now focus on manufacturing of traction motors vs traditional starter motors from China plant.
 - **Not seeing or have heard of any delay in order book ramp-up for BEVs** (ex of couple of EV 2W OEMs led by policy uncertainty).
- **R&D spends to be higher by >100bps** – new products and expedite existing projects. Spent 2.4-2.5% of sales in R&D in FY24. ~70% of the spend will be for adjacent areas such as driveline and motors, ~20% of the spends for new areas (like semi-conductors, chips designs etc.) and ~10% of others.
 - Novelic is seeing good traction on the product side.
- **Margins** improvement was led by favorable product mix and operational efficiencies despite higher freight share (~35-40bp impact on margins) and ESOP cost of Rs80m in 4QFY24 (vs Rs4m in 4QFY23).
- Capex expected to be ~Rs10-12b over 3 years-time frame.
- **New product launches** – Added Steering bevel box in 4QFY24 for CV applications. Added 8 new products in FY24 across verticals. Have got an order from recently added IMC (integrated motor controller) from a customer.
- **Few prevailing challenges** – 1) OHV segment in India and US remained weak as production declined further in 4QFY24 (even Europe is lower but not as bad). Sales were lowest post covid affecting sales of differential gears and DA. US PV and India PV is doing well. 2) EV 2W – uncertainty about FAME subs impacting traction motors sales. 3) Red sea crisis continues combine with higher crude prices impacted freight rates.
- Europe has recovered while US looks good in FY25. India will likely remain volatile in 1HFY25.
- Inventory level back to normal with global customers post impact of UAW strike which is now normalized.

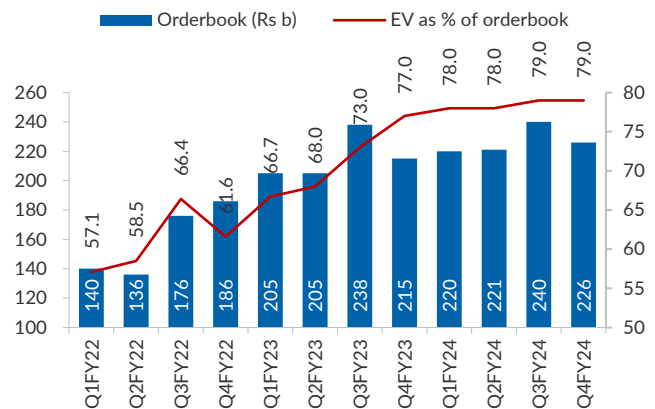
CHARTS

Exhibit 1: 4QFY24 revenues increased +13.1% QoQ



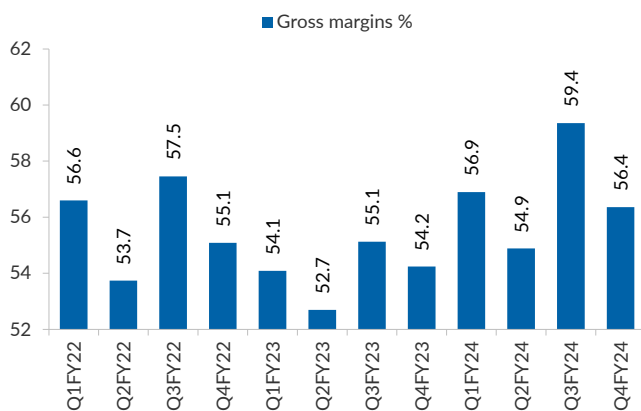
Source: Company, YES Sec

Exhibit 2: EV accounted for ~79% of orderbook



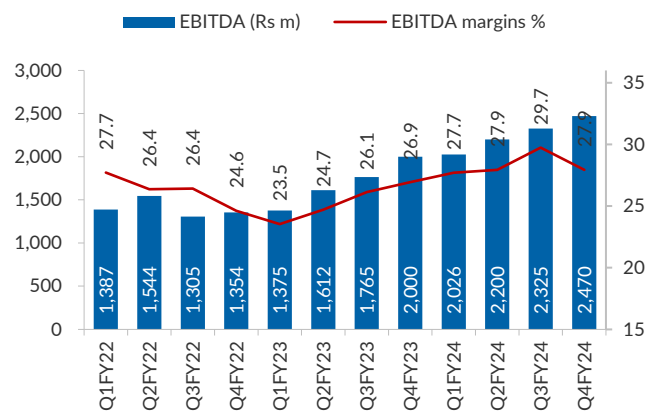
Source: Company, YES Sec

Exhibit 3: GM contracted ~300bp QoQ at 56.4%



Source: Company, YES Sec

Exhibit 4: Margins contracted ~180bp QoQ at 27.9%



Source: Company, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	472	5,730	5,844	5,854	5,864	5,864	5,864
Preference Capital	6	-	-	-	-	-	-
Total Reserves	11,302	8,030	14,159	17,048	22,137	27,771	36,447
Net Worth	11,779	13,759	20,003	22,902	28,001	33,635	42,311
Total Loans	3,672	4,472	1,511	2,952	4,121	3,481	3,331
Deferred Tax Liabilities	1,077	941	884	876	1,261	1,261	1,261
Capital Employed	16,528	19,172	22,398	26,730	33,384	38,378	46,904
Gross Block	10,403	12,343	15,377	19,010	21,510	24,510	28,510
Less: Accum. Deprn.	1,195	1,935	3,294	4,892	7,095	9,608	12,516
Net Fixed Assets	9,209	10,408	12,083	14,118	15,987	14,902	15,994
Goodwill	1,758	1,758	1,758	1,758	3,518	3,518	3,518
Capital WIP	581	832	1,474	911	3,636	3,636	3,636
Total Investments	71	58	130	2,418	527	591	643
Curr. Assets, Loans&Adv.	6,888	8,923	10,512	11,393	14,980	22,220	30,929
Inventory	1,962	3,056	3,634	3,232	3,475	7,213	10,253
Account Receivables	2,336	4,170	4,452	6,089	6,483	9,424	12,869
Cash and Bank Balance	1,673	276	773	698	2,742	3,189	5,291
Loans and Advances	-	-	-	-	-	-	-
Other current assets	916	1,422	1,654	1,373	2,281	2,395	2,515
Curr. Liability & Prov.	1,979	2,807	3,559	3,868	5,266	6,491	7,818
Account Payables	1,861	2,647	3,353	3,629	4,936	6,132	7,437
Provisions	118	159	206	239	330	359	381
Net Current Assets	4,909	6,116	6,953	7,525	9,715	15,730	23,111
Appl. of Funds	16,528	19,172	22,398	26,730	33,384	38,378	46,904

Source: Company, YES Sec

Exhibit 6: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Total Income from Operations	12,201	15,663	21,306	26,755	31,848	41,434	54,853
Change (%)	(14.5)	28.4	36.0	25.6	19.0	30.1	32.4
Raw Materials	5,139	6,453	9,456	12,200	13,741	18,003	23,539
% of Sales	42.1	41.2	44.4	45.6	43.1	43.4	42.9
Employees Cost	1,222	1,474	1,689	1,804	2,501	2,896	3,833
% of Sales	10.0	9.4	7.9	6.7	7.9	7.0	7.0
Other Expenses	2,586	3,325	4,571	5,795	6,584	8,686	11,264
% of Sales	21.2	21.2	21.5	21.7	20.7	21.0	20.5
EBITDA	3,254	4,410	5,591	6,958	9,022	11,849	16,217
Margin (%)	26.7	28.2	26.2	26.0	28.3	28.6	29.6
Depreciation	782	969	1,420	1,780	2,202	2,514	2,908
EBIT	2,472	3,441	4,171	5,178	6,819	9,335	13,309
Interest Charges	269	325	183	169	258	403	356
Other Income	76	23	200	116	239	493	828
PBT bef. EO Exp.	2,279	3,139	4,189	5,124	6,801	9,425	13,782
EO Items	-	(139)	133	(34)	(87)	-	-
PBT after EO Exp.	2,279	3,000	4,322	5,091	6,714	9,425	13,782
Total Tax	62	848	706	1,138	1,535	2,330	3,352
Tax Rate (%)	2.7	28.3	16.3	22.4	22.9	24.7	24.3
Reported PAT	2,217	2,152	3,615	3,952	5,178	7,095	10,429
Adjusted PAT	2,217	2,251	3,504	3,979	5,246	7,095	10,429
Change (%)	4.2	1.5	55.7	13.5	31.8	35.3	47.0

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Profit before Tax	2,279	3,000	4,322	5,091	6,713	9,425	13,782
Depn. & Amort.	782	969	1,420	1,780	2,202	2,514	2,908
Net Interest Exp. / Inc. (-)	238	325	172	161	252	403	356
Inc (-) / Dec in WCap.	4	(2,070)	(890)	(630)	(644)	(5,568)	(5,279)
Others	188	(269)	(34)	33	-42	-	-
Taxes Paid	(398)	(528)	(544)	(1,102)	(1,553)	(2,330)	(3,352)
Operating Cash Flow	3,092	1,427	4,446	5,333	6,928	4,443	8,413
Capex	(2,239)	(2,189)	(3,472)	(3,352)	(3,195)	(3,000)	(4,000)
Free Cash Flow	853	(762)	974	1,980	3,732	1,443	4,413
-Inc/dec in investments	(6,916)	598	(275)	(2,309)	(1,728)	(64)	(52)
Other	(332)	31	213	32	208	-	-
Investing Cash Flow	(9,487)	(1,561)	(3,534)	(5,629)	(4,715)	(3,064)	(4,052)
Inc/(dec) in capital	8,706	-	2,981	40	40	-	-
Dividend+Tax Thereon	(1,731)	(904)	(450)	(1,199)	(1,793)	(1,461)	(1,753)
Inc/dec in loans	1,320	608	(2,954)	1,471	94	(450)	(90)
Net Interest Exp. / Inc. (-)	(205)	(246)	(92)	(12)	(173)	(403)	(356)
Other assets	(1,007)	(125)	(122)	(113)	84	(190)	(60)
Financing Cash Flow	7,083	(667)	(637)	187	(1,747)	(2,504)	(2,259)
Inc / Dec (-) in Cash	689	(800)	275	(109)	465	(1,124)	2,102
Opening cash balance	361	1,050	249	536	441	910	(214)
Movement in Foreign currency translation reserve	-	-	12	14	4	-	-
Closing Cash Balance	1,050	250	536	441	910	(214)	1,888

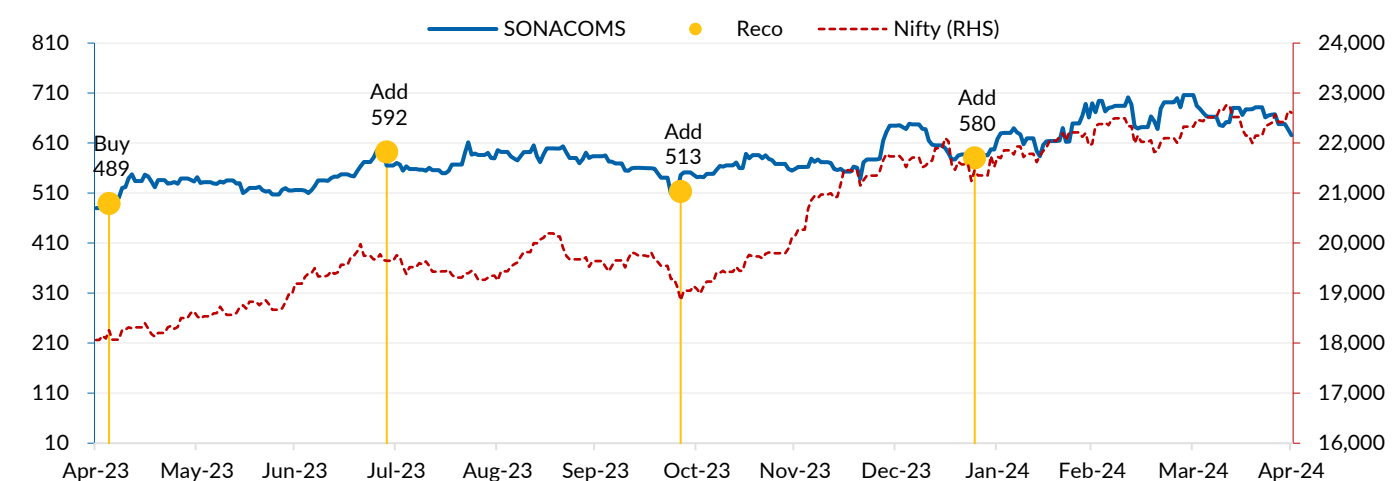
Source- Company, YES Sec

Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)							
EPS	3.9	3.9	6.0	6.8	8.9	12.1	17.8
Cash EPS	5.2	5.6	8.4	9.8	12.7	16.4	22.7
BV/Share	20.5	24.0	34.2	39.1	47.7	57.4	72.1
DPS	1.9	1.6	0.8	1.5	1.5	2.5	3.0
Valuation (x)							
P/E	161.7	159.2	104.3	92.0	69.9	51.7	35.2
P/BV	30.4	26.1	18.3	16.0	13.1	10.9	8.7
EV/Sales	29.5	23.1	17.2	13.7	11.5	8.8	6.6
EV/EBITDA	110.6	82.0	65.4	52.5	40.6	30.8	22.4
Dividend Yield (%)	0.3	0.3	0.1	0.2	0.2	0.4	0.5
FCF per share	1.0	0.9	1.5	(1.3)	1.7	3.4	6.4
Return Ratios (%)							
RoE	18.2	17.6	20.8	18.5	20.6	23.0	27.5
RoCE (post-tax)	19.7	19.3	20.7	18.7	20.7	21.3	25.3
RoIC	18.8	16.4	18.9	19.3	21.5	23.9	28.8
Working Capital Ratios							
Asset Turnover (x)	0.7	0.8	1.0	1.0	1.0	1.1	1.3
Inventory (Days)	58.7	71.2	62.2	44.1	39.8	63.5	68.2
Debtor (Days)	69.9	97.2	76.3	83.1	74.3	83.0	85.6
Creditor (Days)	47.4	72.7	50.9	45.9	47.7	53.9	54.9
Leverage Ratio (x)							
Current Ratio	3.5	3.2	3.0	2.9	2.8	3.4	4.0
Interest Cover Ratio	12.1	13.6	30.6	41.1	35.0	29.4	45.6
Net Debt/Equity	0.1	0.2	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)

Source- Company, YES Sec

Recommendation Tracker



Source – YES Sec

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NSDL: IN-DP-653-2021 | MERCHANT BANKER: INM000012227 |
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DISCLOSURE OF INTEREST

Name of the Research Analyst : Deep Shah

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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