

- ❑ Sona BLW Precision Forgings Limited reported consolidated revenue of ₹ 6,753 million, a growth of 38.9% YoY. The BEV segment revenue grew 29% YoY while Non-BEV Revenue recorded saw a strong growth of 42% YoY which is more than two times of the underlying market growth of 18%.
- ❑ The company reported EBITDA of ₹ 1,765 million in Q3FY23 as against ₹ 1,224 million in Q3FY22, a growth of 44.2% YoY. EBITDA Margins for Q3FY23 stood at 25.2%, 80 basis points better compare to quarter last year. Absolute EBITDA has grown by 43% compared to revenue growth of 39%. On a sequential basis, EBITDA margin is up by 200 basis points mainly due to better product mix. Profit after tax at ₹ 1,070 million is higher by 45% compared to adjusted PAT reported for the third quarter during last year.
- ❑ During the nine months of the year, revenue grew by 22% to ₹ 19,320 million. BEV revenue grew by 31% to ₹ 4,670 million and constituted 25% of their total sales. Non-BEV revenue grew by 20% while the light vehicle market in their three largest markets of North America, India and Europe grew by only 1% over the same period. For nine months, EBITDA grew by 17% to ₹ 4,940 million, EBITDA margin percentage was lower by 120 basis points, largely due to arithmetic effect from increase in RM prices despite the cost pass-through. The PAT for the first nine months grew by 18% to ₹ 2,760 million, compared to the adjusted PAT of ₹ 2,340 million for the same period last year. Margin transmission between EBITDA and PAT is better due to lower finance costs as compared to the previous year.
- ❑ Coming to EV, their battery electric vehicle revenue share has increased from 23% in nine months FY22 to 25% and BEV revenue in absolute terms has grown by 31% to over ₹ 4,600 million in the first nine months of the year. They continue to build their own EV order book, and in Q3 they have added four new EV programs and two new EV customers.
- ❑ Their net order book which has increased on the back of these 4 new EV programs and 5 new non-EV programs, those are mostly in the driveline products for commercial vehicles. This increases by 35% year on year and their order book increases 16% over just last quarter, and they reached finally 2,38,000 million at the end of Q3. Now the large size of the EV programs wins have also increased the proportion of EV in this order book, and now it's 73%.
- ❑ We remain positive on the stock and expect good growth in long term supported by revenue visibility from Order book, increasing EV penetration and companies focus on BEV portfolio. We maintain **BUY** rating on the stock with a target price of **₹630 per share**.

Key takeaways from Concall

- ❑ Order book of the company stood at 2,38,000 million in Q3 FY23 as against 2,05,000 million in Q2 FY23. In Q3 FY23, the company added 4,200 million worth of orders while orders worth USD 9,000 million have gone into serial production. It added four programs QoQ (by adding two new customers) to 41 now (10 in production and 31 in order book) across 25 customers.
- ❑ Global market share for starter motors has declined from 4.6 to 4.1%. According to management they haven't lost any business, but mainly because the highest starter motor market shares are in Europe followed by the US, both of these declined as a percentage of the world auto market. While Asia, where they had lower penetration, grew its share in CY22. Hopefully, as both Europe and the US look like they are picking up, they should see recovery on this front in CY23.
- ❑ Their market share in differential gears, on the other hand, continues to grow rapidly and has reached 7.2% of global volumes. Despite this relative shift of the US and Europe going down, this is what underlines their ability to grow on the strength of new orders alone.
- ❑ Differential assembly value alone per vehicle can range from \$30 at the bottom to almost \$300 at the top on the passenger side. And on the commercial vehicle side, it can range from just about \$20 to almost \$900 going to the top of the range. So their strategy is to cover the whole spectrum for sure but focus more on maximizing their penetration in the top three segments of both PV and CV.
- ❑ The management expects EBITDA/PAT margins of 27%/15% for the next 4-5 quarters at least.

Financials:

(In ₹ mn)	Q3-FY23	Q2-FY23	Q3-FY22	Chg	9M-FY23	9M-FY22	Chg
Net Sales	6,753	6,259	4,860	39.0%	19,124	15,618	22.4%
Operating Expense	4,988	4,917	3,636	37.2%	14,372	11,569	24.2%
EBITDA	1,765	1,612	1,224	44.2%	4,752	4,049	17.4%
Other Income	130	73	132	-	263	224	-
Depreciation	470	429	357	-	1,299	1,046	-
EBIT	1,424	1,256	999	42.6%	3,716	3,227	15.2%
Interest	51	43	33	-	123	148	-
PBT	1,373	1,213	966	42.2%	3,593	3,079	16.7%
Tax	302	288	101	-	838	664	-
Exceptional Items	-	-	-	-	-	133	-
PAT	1,071	925	864	23.9%	2,755	2,548	8.1%
Consolidated PAT	1,071	925	864	23.9%	2,755	2,548	8.1%
Margins	Q3-FY23	Q2-FY23	Q3-FY22	Chg BPS	9M-FY23	9M-FY22	Chg BPS
Operating Margin %	26.1%	24.7%	25.2%	95	24.8%	25.9%	-108
Net Margin %	15.9%	14.2%	17.8%	-193	14.4%	16.3%	-191

Consolidated Financials:

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
Net Sales	15,663	21,306	25,977	34,586
Operating Expense	11,253	15,715	19,406	25,144
EBITDA	4,410	5,591	6,571	9,442
Other Income	23	200	130	173
Depreciation	969	1,420	1,484	1,762
EBIT	3,464	4,372	5,217	7,852
Interest	325	183	127	137
Misc. items	(139)	133	-	-
PBT	3,000	4,322	5,089	7,715
Tax	848	706	1,018	1,543
PAT	2,152	3,615	4,072	6,172

Margins	FY-21	FY-22	FY-23E	FY-24E
Sales Growth %	-	36.0%	21.9%	33.1%
Operating Margin %	28.2%	26.2%	25.3%	27.3%
Net Margin %	13.7%	17.0%	15.7%	17.8%

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
<u>Liabilities</u>				
Equity Share Capital	5,775	5,908	5,908	5,908
Reserves & Surplus	7,984	14,095	17,556	22,802
Total Shareholder's Funds	13,759	20,003	23,464	28,710
Minority Interest	-	-	-	-
Long-Term Liabilities	1,907	438	438	438
Other Long-term Liabilities	808	798	798	798
Deferred Tax Liability	941	884	884	884
Short-term Liabilities	4,564	4,571	5,462	6,791
Total	21,979	26,694	31,045	37,621
<u>Assets</u>				
Net Fixed Assets	12,998	15,315	15,251	16,962
Long-Term L&A	769	889	889	889
Non Current Investments	-	-	-	-
Other Non-Current Assets	2	1	1	1
Current Asset	8,209	10,488	14,904	19,768
Total	21,979	26,694	31,045	37,621

(In ₹ mn)	FY-21	FY-22	FY-23E	FY-24E
EPS (₹)	3.7	6.2	7.0	10.6
P/E (x)	126.4	72.7	64.6	42.6
P/B (x)	19.8	13.1	11.2	9.2
ROE	15.6%	18.1%	17.4%	21.5%

Source: Company, Anand Rathi Research

Key Risks:

- ❑ Increase in Raw Material prices will dent margins.
- ❑ Pace of EV Penetration slower than expected.
- ❑ Lockdown in China will affect Supply Chain.



Rating and Target Price history:

SONACOMS in rating history & price chart



Source: Bloomberg, Anand Rath Research

NOTE: Prices are as on 31st January 2023 close.

SONACOMS in rating details

Date	Rating	Share Price (₹)	Target Price (₹)
24-June-22	BUY	580	684
30-July-22	BUY	568	684
31-Oct-22	BUY	465	634
30-Jan-23	BUY	450	630



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