

Sona BLW Precision Forgings Ltd

Subscribe for Long Term

Price Band: INR 285-291

ISSUE SUMMARY

Issue Opens	14-June-21
Issue Closes	16-June-21
Offer Price (INR per share)	285-291
Bid Lot	51 shares
Face Value (INR)	10.0
Pre Issue Shares o/s (mn)	573.0
^Offer for Sale (No of sh. mn)	180.4
^Fresh Issue (No of sh. mn)	10.3
^Post Issue shares o/s (mn)	583.3
^*Issue Size (INR bn)	55.5
QIB	=>75%
Non-institutional	<15%
Retail	<10%
^ Issue Size (@INR291)	

POST ISSUE DETAILS

M.Cap @INR291/sh. (INR bn)	169.7
Shareholding pattern	
Promoters	67.3%
Non-Promoters	32.7%

Sona BLW Precision Forgings Ltd (SBPFL) is one of the leading critical auto components manufacturer globally with thrust on the EV segment.

One of the leading player in global EV market with growing market share:

SBPFL started supplying differentiated gears/ assemblies in the global EV market since 2016/2018 and has garnered 5%/8.7% market share (as of CY20). These two products currently contribute 46% of revenues while balance 51% comes from starter motors (SM; both Hybrid and conventional). In SM it has 3% market share globally. Global EV and Micro-Hybrid/Hybrid markets form 41% of revenue (18% in FY19) while conventional powertrains constitutes the remaining. Given government's thrust globally and changing customer preferences, EV and mild hybrid sales are expected to grow 5x by 2025, accounting for 33% global production (8% currently), thus presenting huge opportunity for SBPFL.

Well diversified portfolio across categories to tap future growth:

Apart from being well-diversified across products catering to all types of conventional and electrified powertrains, SBPFL is also diversified across geographies and vehicle segments. It derives 68% revenue from PVs while CVs/off highway vehicles form 14%/17%. On the other hand, exports form 75% of revenue (across North America/Europe/China/others) while balance comes from India. Given GOI's thrust on EV, demand for electric 2-wheelers/3-wheelers in India is expected to grow at 72-74%/46% CAGR during FY21-26, which could benefit SBPFL in big way.

Healthy Financials: Over FY18-21, SBPFL's Revenue/EBITDA/Adj. PAT grew at a robust CAGR of 36%/37%/39% given its thrust in global EV market while EBITDA margins expanded 76bps to 28.2%. Its margins are much superior vis-a-vis peers given its critical component products. The net D/E stood at 0.3x as of FY21, which post repayment, would reduce to zero. Return ratios are healthy with FY21 RoE/RoCE at 16.5%/15.3%.

Issue Size: The INR55.5bn IPO consists of OFS (by Blackstone PE) of INR52.5bn and fresh issue of INR3.0bn which would result in promoter's stake reducing to 67.3% post-IPO. The funds will be utilized to repay debt of INR2.4bn, with the balance reserved for general corporate purpose.

Valuation & View: We like SBPFL given its presence in fast growing global EV market, diversified portfolio across categories and robust financials. The issue is valued at 74.1x FY21 P/E on post issue basis. Though the valuation appears fully priced in, given its thrust in fast evolving EV space both in India and globally, market would like to give premium to such emerging growth story. Hence, we recommend **Subscribe for Long Term**.

Exhibit 1: Financials & Valuations (INR mn)

Y/E March	FY18	FY19	FY20	FY21
Revenue	6,231	6,992	10,380	15,663
Growth (%)	NA	12.2	48.4	50.9
Adj PAT	860	999	1,283	2,291
Growth (%)	NA	16.2	28.4	78.6
EPS (INR)	1.5	1.7	2.2	3.9
RoE (%)	NA	57.5	19.0	16.5
P/E (x)	197.4	169.9	132.3	74.1

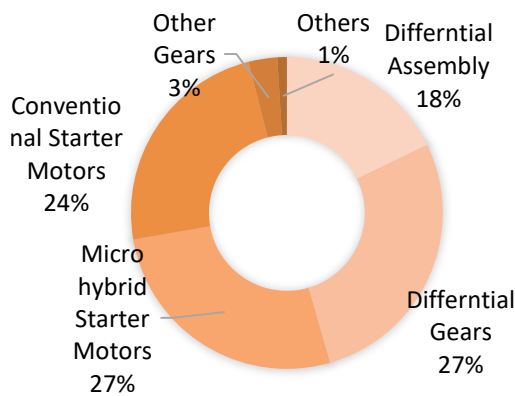
Source: RHP, MOFSL

Calculated on post issue basis, at the upper price band of INR291

About the Company

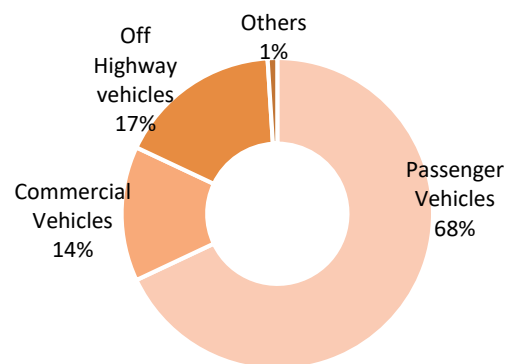
Sona BLW Precision Forgings Ltd (SBPFL) is a global automotive systems and components manufacturer, involved in designing, manufacturing and supplying highly engineered, mission critical automotive systems and components such as differential assemblies, differential gears, conventional and micro-hybrid starter motors, BSG systems, EV traction motors (BLDC and PMSM) and motor control units to automotive OEMs across the geographies, for both electrified and non-electrified powertrain segments. It supplies across all vehicle categories such as conventional passenger vehicles, commercial vehicles, off-highway vehicles, electric cars, electric light commercial vehicles, and electric two & three wheelers.

Exhibit 2: Revenue mix by product type (FY21)



Source: RHP, MOFSL

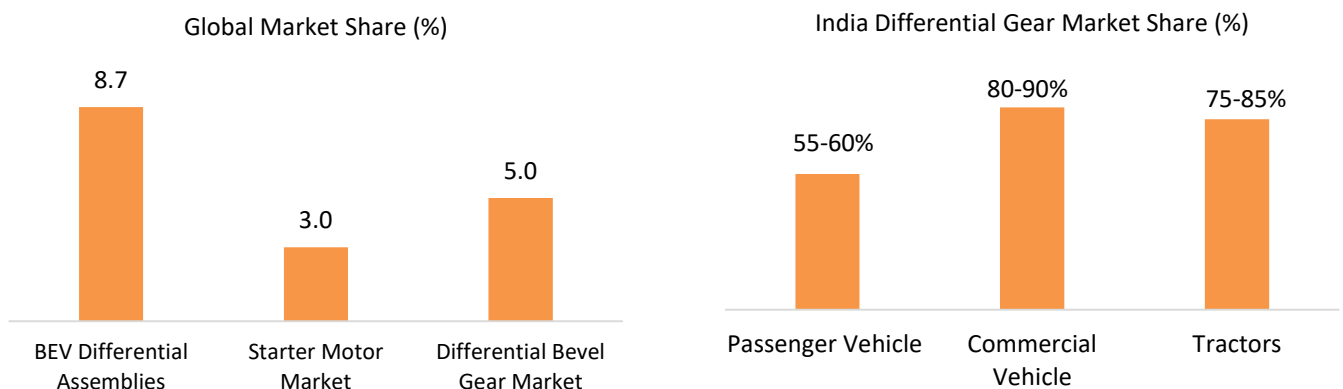
Exhibit 3: Revenue mix by vehicle type (FY21)



Source: RHP, MOFSL

According to the Ricardo Report, as of CY20, SBPFL is among the top ten players globally in the differential bevel gear market on the basis of overall volumes supplied to PVs, CVs and tractors. It is also amongst the top ten global starter motor suppliers. It has gained global market share across products to reach a ~5% for differential bevel gears, 3% for starter motors and 8.7% for BEV differential assemblies, in CY2020.

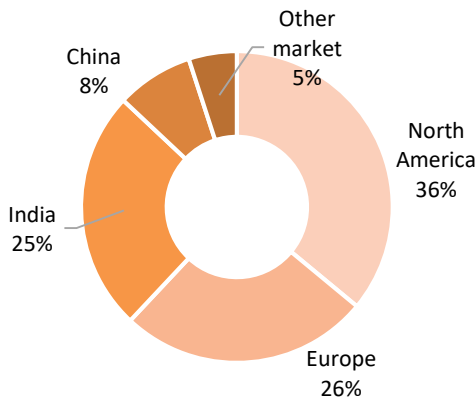
Exhibit 4: Increasing global & Indian market share



Source: RHP, MOFSL

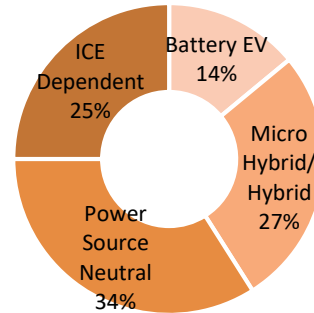
SBPFL has nine manufacturing and assembly facilities across India, China, Mexico and USA, of which six are located in India, from supplying 168 products to six out of the top ten global PV OEMs, three out of the top ten global CV OEMs and seven out of the top eight global tractor OEMs by volume. It derives 75% of revenues from overseas markets while balance 25% comes from India. Infact SBPFL is also one of the two largest exporters of starter motors from India (Ricardo Report).

Exhibit 5: Revenue mix by geography (FY21)



Source: RHP, MOFSL

Exhibit 6: Revenue mix by powertrain (FY21)

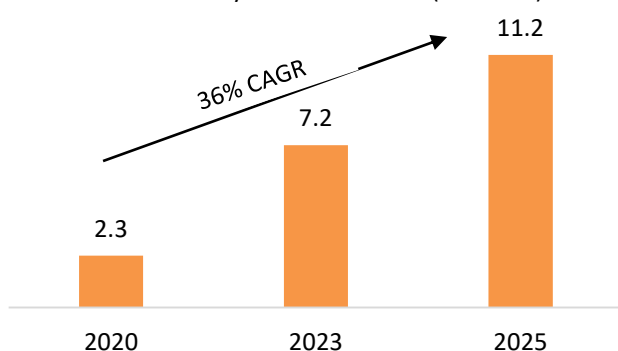


Source: RHP, MOFSL

With a strong focus on R&D, SBPFL has strong expertise in precision forging technology, thus standing apart as integrated solution provider (Design to Test) against industry norm of ‘Build to print’. It is one of the few companies globally, with the ability to design high power density EV systems with a lightweight design, while meeting stringent durability, performance and NVH specifications, enabling EV manufacturers to enhance the vehicle range, acceleration and the overall efficiency. Infact SBPFL derived 13.8% revenue from Battery EV (BEV) sales in FY21 which grew by 244% CAGR over FY19-21. BEV global market has been the fastest growing market at a 46% CAGR (CY15-20) and is expected to grow at a 36% CAGR by CY25 with increased market penetration (Ricardo Report). It also caters to the Micro Hybrid/Hybrid vehicles which formed 27% of revenues in FY21. The mild hybrid industry is expected to grow at 40% over CY20-25.

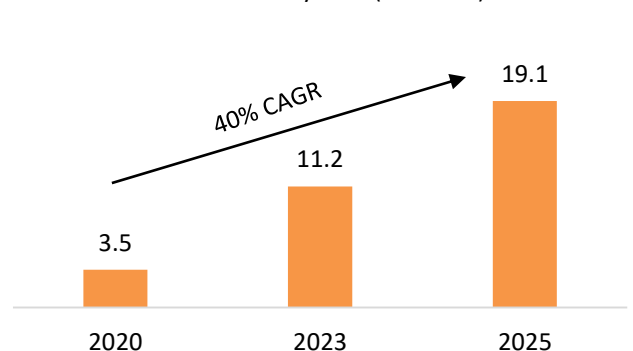
Exhibit 7: Global EV & Mild Hybrid sales expected to rise 5x by 2025

Global Battery Electric Vehicles (Mn units)



Source: RHP, MOFSL

Global Mild Hybrids (Mn units)

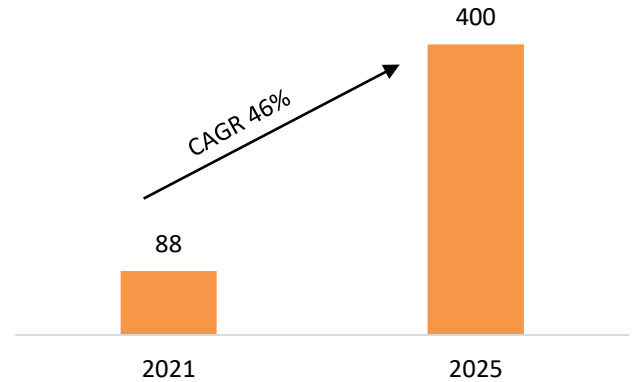
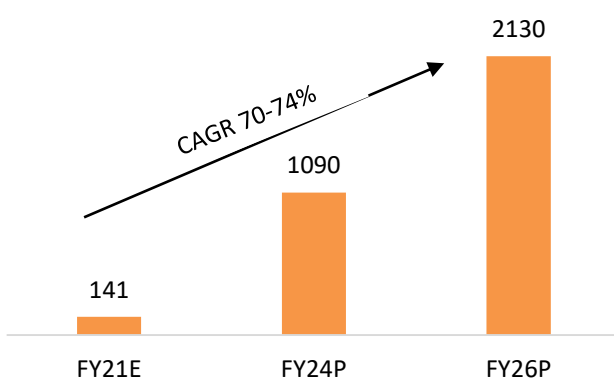


Source: RHP, MOFSL

Given diversified products across all types of conventional and electrified powertrains, SBPFL is one of the few auto component manufacturers in India that is well-positioned to gain from high growth industry trends as well as various initiatives introduced by the GoI to facilitate the industry growth. Infact, GOI recently announced INR570.4bn production-linked incentive (PLI) scheme, which is likely to increase exports resulting in increased demand for differential gears in India (CRISIL Report). Demand for electric two-wheelers in India is expected to grow at a CAGR of 72-74% during FY21-26 (CRISIL Report), while for the electric three-wheelers, it is expected to grow at 46% CAGR during CY21-25 (Ricardo Report). The company supply e-axles, BLDC motors and motor control units for use in the electric two-wheeler and three-wheeler segments.

Exhibit 7: India 2W EV Outlook ('000 units)

Exhibit 8: India 3W EV Outlook ('000 units)



Source: RHP, MOFSL

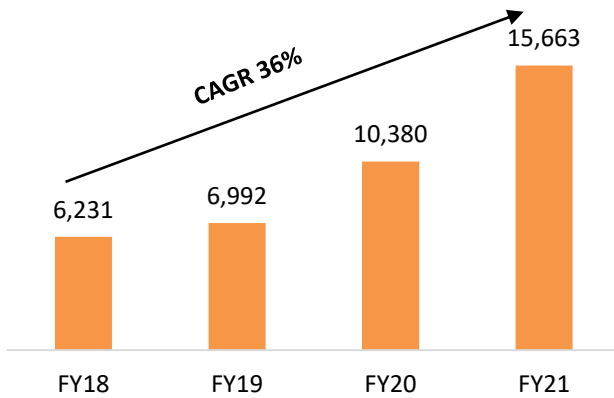
Source: RHP, MOFSL

According to the Ricardo Report, by 2030, ~70% of all commercial PV, 30% of private PV, 40% of buses, 80% of two-wheeler and 80% of three-wheeler sales in India would be electric. Indian CV/ PV sales are expected to grow at a CAGR of 9-10%/ 12-14% over FY21-26 (CRISIL Report). This will be positive for differential gears business as SBPFL’s market share of the Indian CV/PV markets is ~80-90%/55-60% (CRISIL Report).

The mix of SUVs, CUVs, multi axle trucks and high powered EVs in the Indian and global PV and CV market is expected to increase according to the CRISIL Report and the Ricardo Report, leading to higher usage of differential gears per vehicle as these vehicles are AWD/4WD/multi-axle. This trend is expected to be positive for revenue growth of SBPFL’s differential gear business.

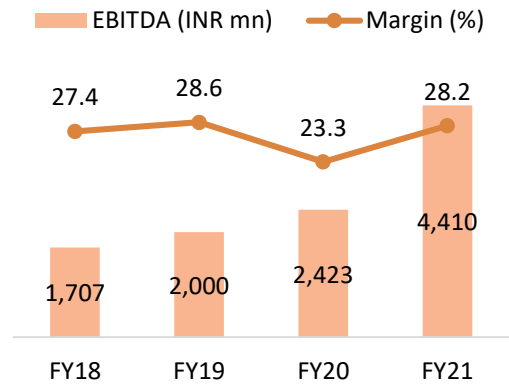
Story in Charts

Exhibit 9: Sales (INR m) grew at 36% CAGR (FY18-21)



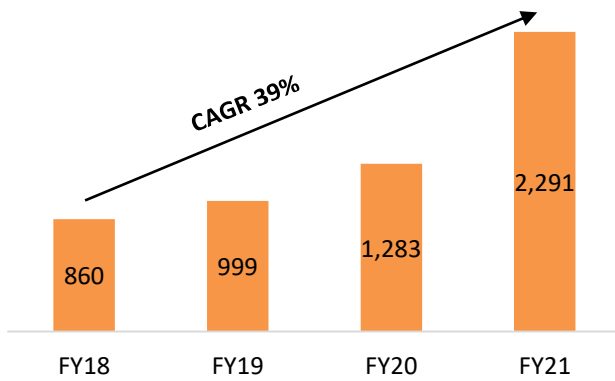
Source: RHP, MOFSL

Exhibit 10: EBITDA grew at 37% CAGR over FY18-21



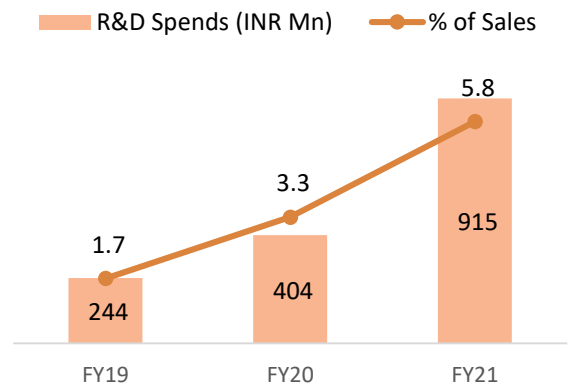
Source: RHP, MOFSL

Exhibit 11: PAT (INR m) grew at a 39% CAGR over FY18-21



Source: RHP, MOFSL

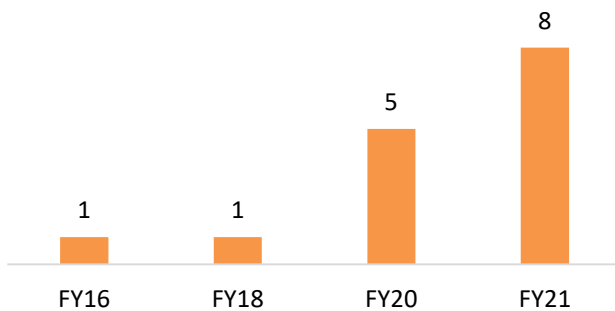
Exhibit 12: Consistent R&D spend to maintain technological edge



Source: RHP, MOFSL

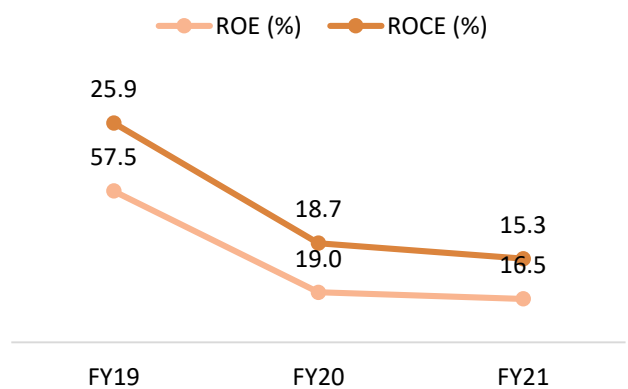
Exhibit 13: Awarded 15 EV systems & components development programs by 10 different customers

Growing Wins Every Year



Source: RHP, MOFSL

Exhibit 14: Healthy Return ratios



Source: RHP, MOFSL

Peer Comparison

Company	M.Cap. INR Bn	Revenue CAGR FY18-21 (%)	PAT CAGR FY18-21 (%)	EBITDA Margin FY21 (%)	ROE FY21 (%)
Motherson Sumi	779.2	2.3	-14.2	8.3	9.0
Bosch	495.8	-6.0	-11.6	10.3	10.4
Bharat Forge	353.3	-8.8	-47.6	13.6	1.7
Endurance	211.0	0.9	7.4	14.6	21.0
Sona Comstar	169.7	36.0	38.6	28.2	16.5
Mahindra Cie	82.5	-2.0	-33.9	8.3	2.2

Company	P/E		P/BV		EV/EBITDA	
	FY20 (x)	FY21 (x)	FY20 (x)	FY21 (x)	FY20 (x)	FY21 (x)
Motherson Sumi	66.0	72.0	6.9	6.2	14.0	16.7
Bosch	37.7	47.5	5.1	4.8	33.1	41.8
Bharat Forge	85.0	395.8	6.7	6.4	30.2	42.8
Endurance	39.3	41.6	7.0	5.9	16.1	20.3
Sona Comstar	132.3	74.1	14.4	10.6	70.7	38.6
Mahindra Cie	22.7	75.7	1.7	1.6	9.7	18.8

Source: Company RHP, Bloomberg, MOFSL

*Price Data as on 11th June, 2021

^Calculated on fully diluted basis at upper price band of INR291

Risk and concerns

- Top 5/10 customers contribute 58%/80% of revenue, which reflects high client concentration.
- SBPFL may not realize all of the revenue expected from the new and incremental business backlog as it does not have firm commitment agreements with customers.
- Delay in the growth of the EV market both domestically and globally.
- High exposure to foreign currency risk as exports form 75% of revenue

Financials

Income Statement

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
Net Sales	6,231	6,992	10,380	15,663
Change (%)	-	12.2	48.4	50.9
Total Expenditure	4,524	4,992	7,957	11,253
% of Sales	72.6	71.4	76.7	71.8
EBITDA	1,707	2,000	2,423	4,410
Margin (%)	27.4	28.6	23.3	28.2
Depreciation	233	310	671	969
EBIT	1,474	1,690	1,752	3,441
Int. and Finance Charges	191	178	260	325
Other Income	28	33	58	23
Exceptional Items	0	0	-2,321	139
PBT	1,309	1,548	3,870	3,000
Tax	448	547	267	848
Tax Rate (%)	34.2	35.3	6.9	28.3
Minority Interest	1	2	0	0
Reported PAT	860	999	3603	2152
Adjusted PAT	860	999	1,283	2,291
Change (%)	-	16.2	28.4	78.6
Margin (%)	13.8	14.3	12.4	14.6

Source: Company RHP, MOFSL

Balance Sheet

(INR mn)

Y/E March	FY18	FY19	FY20	FY21
Share Capital	277	277	478	5,730
Reserves	-275	1,461	11,302	7,309
Net Worth	2	1,738	11,779	13,039
Minority Interest	25	24	0	0
Debt	5,558	1,303	3,218	3,877
Deferred Tax (Net)	-172	111	1,077	1,260
Total Capital Employed	5,413	3,176	16,074	18,177
Net Fixed Assets	7,933	2,913	10,652	12,166
Capital WIP	180	132	896	832
Investments	4	0	19	0
Current Assets	6,548	2,774	6,940	8,750
Inventory	2,839	678	1,962	3,056
Debtors	2,810	1,521	2,336	4,170
Cash and Bank Balance	264	256	1,673	276
Loans and Advances & OCA	903	1,276	1,320	1,408
Curr. Liability & Provisions	9,253	1,882	2,432	3,572
Account Payables	3,298	692	1,162	2,241
Current Liabilities	1,635	1,149	1,151	1,170
Other Long Term Liab. & Provs.	4,319	41	119	161
Net Current Assets	-2,704	892	4,507	5,179
Net Liab of disposal group held for sale		761	0	0
Appl. of Funds	5,412	3,176	16,074	18,177

Source: Company RHP, MOFSL

Key Ratios

Y/E March	FY18	FY19	FY20	FY21
Basic (INR)				
EPS	1.5	1.7	2.2	3.9
Cash EPS	1.9	2.2	3.4	5.6
BV/Share	0.0	3.0	20.2	27.5
DPS	0.0	0.0	0.0	0.0
Valuation (x)				
P/E	197.4	169.9	132.3	74.1
Cash P/E	155.3	129.7	86.9	52.1
P/BV	-	97.7	14.4	10.6
EV/Sales	28.1	24.4	16.5	10.9
EV/EBITDA	102.5	85.4	70.7	38.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
Return Ratios (%)				
RoE	-	57.5	19.0	16.5
RoCE	17.8	25.9	18.7	15.3
Working Capital Ratios				
Asset Turnover (x)	1.2	2.2	0.6	0.8
Inventory (Days)	166	35	69	71
Debtor (Days)	165	79	82	97
Creditor (Days)	193	36	41	52
Leverage Ratio (x)				
Net Debt/Equity	-	0.6	0.1	0.0

Source: Company RHP, MOFSL

*All ratios calculated on fully diluted basis at the upper price band of INR291

Cash Flow Statement**(INR mn)**

Y/E March	FY18	FY19	FY20	FY21
OP/(Loss) before Tax	1,309	1,548	3,870	3,000
Depreciation	233	310	671	969
Interest paid	191	178	260	325
Income Taxes paid	-412	-494	-278	-528
(Inc)/Dec in WC	100.27	436.82	163.76	-2070.5
CF from Operations	1,422	1,978	4,687	1,696
Others	67	-26	-2,153	-268
Net Cash used (Discontinued operations)		-406		
CF from Operating (Net)	-203	389	949	138
(Pur)/Sale of FA	-876	-1,414	-2,119	-2,180
(Pur)/Sale of Investments	-163	8	-7,127	-0
Movement in Bank Deposits (net)	-364	-254	-332	598
Interest Received	24	27	36	22
Net Cash used (Discontinued operations)		3,675		
CF from Investments	-1,379	2,041	-9,542	-1,561
Proceeds from borrowings	-54	-152	1,491	596
Issue of equity shares	-	-	7,699	-21
Interest Paid	-179	-160	-213	-246
Dividend paid	-	-	-1,166	-904
Net Cash used (Discontinued operations)	39	-3,124		
CF from Fin. Activity	-128	-3,461	7,668	-667
Net Inc/Dec of Cash	-19	126	660	-800

Source: Company RHP, MOFSL

Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	<- 10%
NEUTRAL	> -10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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Analyst ownership of the stock No

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