

## Sona BLW Precision Forgings Limited

Sona BLW Precision Forgings (Sona Comstar), a technology and innovation driven company, derives ~40% of its revenues from high growth areas like Battery Electric Vehicles (BEV) and Hybrid Vehicles. It is among the top 10 players globally for differential bevel gears and for starter motors for the PV segment. It had 5% market share for differential bevel gears, 3% for starter motors and 8.7% for BEV differential assemblies. They have a diversified customer base across the globe with 75% of their income (sale of goods, FY21) coming from end-use in overseas markets.

**Positives:** (a) One of the leading manufacturers and suppliers to global EV markets (b) One of the leading global companies and gaining market share, diversified across key automotive geographies, products, vehicle segments and customers (c) Strong research and development and technological capabilities in both hardware and software development (d) Strong business development with customer centric approach. (e) Consistent financial performance with industry leading metrics.

**Investment concerns:** (a) Business is dependent on the performance of the automotive sector globally, including key markets such as US, Europe, India, and China. (b) Negative publicity about the brand, or inability to protect any of the IPs, including misappropriation, infringement could impact the business. (c) Business largely depends upon the top ten customers and the loss of such customers or a significant reduction in purchases by such customers will have a significantly adverse impact on the business.

**Outlook & Valuation:** Sona Comstar is present in the right areas and can be a major beneficiary of shift in focus of Global OEM's towards EVs over the next decade. As per industry reports, Sona Comstar is among handful of companies in the world with strong motor and driveline capabilities. We believe that the company can maintain strong growth rates from its current base given higher salience of revenues from BEVs vs. industry. Ramp-up of business by select Global OEMs with EV offerings provides evidence while increasing avg. realization per vehicle (ICE vs. BEV) would drive top-line growth. The upper end of ₹ 291 implies FY21 P/E of ~75.2x which is in line with other Indian Auto Component companies that have lower top-line growth, margins and return ratios vs. Sona Comstar. Hence, we recommend "SUBSCRIBE" on the Issue.

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	699.2	1,038.0	1,566.3
% chg	-	48.4	50.9
<b>Net Profit</b>	173.2	360.3	215.2
% chg	-	108.1	-40.3
EBITDA (%)	28.6	23.3	28.2
<b>EPS (Rs)</b>	62.5	75.5	3.8
P/E (x)	4.7	3.9	77.5
P/BV (x)	4.6	1.2	12.8
ROE (%)	99.7	30.6	16.5
ROCE (%)	53.2	10.9	18.9
EV/EBITDA	4.6	6.4	38.4
EV/Sales	1.3	1.5	10.8

Source: Company, Angel Research

## SUBSCRIBE

Issue Open: June 14, 2021

Issue Close: June 16, 2021

### Issue Details

Face Value: Rs 10

Present Eq. Paid up Capital: Rs 573.0 cr

Offer for Sale: Rs. 5250cr

Fresh issue: Rs. 300 cr.

Post Eq. Paid up Capital: Rs 583.3 cr

Issue size (amount): Rs 5550 cr

Price Band: Rs 285-291

Lot Size: 51 shares and in multiple thereafter

Post-issue mkt. cap: \*Rs 16630 cr - \*\*Rs 16974 cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 67.3%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

### Post Issue Shareholding Pattern

Promoters	67.3%
Others	32.7%

## Company background

Incorporated in October 1995, Sona BLW Precision Forgings Limited is one of India's leading automotive technology companies, designing, manufacturing, and supplying highly engineered, mission critical automotive systems and components. Its components include differential assemblies, differential gears, conventional and micro-hybrid starter motors, BSG systems, EV traction motors (BLDC and PMSM) and motor control units. It supplies its automotive OEMs across US, Europe, India, and China, for both electrified and nonelectrified powertrain segments. Company has been gaining global market share across products to reach a share of approximately 5.0% for differential bevel gears, 3.0% for starter motors and 8.7% for BEV differential assemblies, in calendar year 2020. It has nine manufacturing and assembly facilities across India, China, Mexico, and USA, of which six are in India, from where it supplies 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 is a technology and innovation driven company. With a strong focus on research and development ("R&D"), it is among one of a few companies globally, with the ability to design high power density EV systems handling high torque requirements 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.

Its total operating income has grown at a CAGR of 10.9% from Fiscal Years 2016 to 2020, as compared to the average CAGR of 8.1% for the top ten listed auto-component manufacturers in India. For Fiscal Years 2019, 2020 and 2021, it has EBITDA of ₹4,122.43 million, ₹3,253.55 million, and ₹4,410.16 million amounting to EBITDA margin of 28.9%, 26.7% and 28.2%, respectively, average ROE of 35.6%, 35.2% and 36.4%, respectively, and ROCE of 40.3%, 29.0% and 34.8%, respectively.

## Issue details

The issue size is ₹ 5550cr, which comprises of fresh issues of up to ₹300 crore & offer for sale of ₹ 5250cr in the price band of ₹285-₹291 per share.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	57,29,80,560	100.0	39,25,68,189	67.3
Public	0	0.0	19,07,21,649	32.7
<b>Total</b>	<b>57,29,80,560</b>	<b>100.0</b>	<b>58,32,89,838</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- Repayment and pre-payment of identified borrowings in full availed by the Company; and
- General corporate purposes

## Key Management Personnel

**Sunjay Kapur** is the Chairman and Non-Executive Director of the Company. He holds a bachelor's degree in science (business studies) from the University of Buckingham. He has over 21 years of experience in the automotive industry. He also served as director on the board of directors of various companies and was the managing director of Sona Koyo Steering Systems Limited (now JTKET India Limited).

**Vivek Vikram Singh** is the Managing Director and Group Chief Executive Officer of the Company. He holds a bachelor's degree in technology (computer science and engineering) from HBTI, Kanpur and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. He has over 15 years of experience, including six years of experience in the automotive industry

**Amit Dixit** is a Nominee Director of the Company. He holds a bachelor's degree of technology in civil engineering from the Indian Institute of Technology, Bombay, (where he was awarded the institute silver medal) a master's degree in science in civil engineering from the Leland Stanford Junior University and a master's degree in business administration from Harvard University. He has significant experience in various investments and investment opportunities in India and South Asia.

**Ganesh Mani** is a Nominee Director of the Company. He holds a bachelor's degree of technology in mechanical engineering from the Indian Institute of Technology, Bombay. He is currently managing director with the private equity business group of the Blackstone Group in India.

**Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Total operating income</b>	699.2	1,038.0	1,566.3
% chg	-	48.4	50.9
<b>Total Expenditure</b>	499.2	795.7	1,125.3
Cost of materials consumed	192.84	442.42	709.48
Changes in inventories & WIP	12.22	3.18	-64.17
Employee benefits expense	49.00	102.73	147.45
Other expenses	245.17	247.38	332.53
<b>EBITDA</b>	200.0	242.3	441.0
% chg	-	21.1	82.0
(% of Net Sales)	28.6	23.3	28.2
Depreciation & Amortization	31.0	67.1	96.9
<b>EBIT</b>	169.0	175.2	344.1
% chg	-	3.6	96.4
(% of Net Sales)	24.2	16.9	22.0
Finance costs	17.8	26.0	32.5
Other income	76.6	5.8	2.3
(% of Sales)	10.9	0.6	0.1
<b>Recurring PBT</b>	227.8	155.0	313.9
% chg	-	-32.0	102.6
Exceptional item	-	232.1	-13.9
Tax	54.6	26.7	84.8
<b>PAT (reported)</b>	173.2	360.3	215.2
% chg	-	108.1	-40.3
(% of Net Sales)	24.8	34.7	13.7
<b>Basic &amp; Fully Diluted EPS (₹)</b>	62.5	75.5	3.8

Source: Company, Angel Research

**Consolidated Balance Sheet Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	27.7	47.7	573.0
Other equity (Retained Earning)	146.1	1,130.2	730.9
<b>Shareholders' Funds</b>	<b>173.8</b>	<b>1,177.9</b>	<b>1,303.9</b>
<b>Total Loans</b>	<b>114.6</b>	<b>261.4</b>	<b>305.2</b>
Other liabilities	29.2	167.7	206.8
<b>Total Liabilities</b>	<b>317.7</b>	<b>1,607.1</b>	<b>1,815.9</b>
<b>APPLICATION OF FUNDS</b>			
Property, plant and equipment	178.4	284.5	344.9
Capital work-in-progress	13.2	58.1	82.1
Right-of-use assets	40.5	141.9	159.3
Goodwill	-	175.8	175.8
Other intangible assets	72.4	462.9	536.6
Intangible assets	-	31.5	1.1
<b>Current Assets</b>	<b>1,312.5</b>	<b>631.8</b>	<b>820.9</b>
Inventories	67.8	196.2	305.6
Trade receivables	152.1	233.6	417.0
Cash and cash equivalents	0.2	105.0	24.9
Bank balances	25.4	62.3	2.6
Loans	0.0	0.5	1.5
Other financial assets	3.2	0.5	15.2
Other current assets	13.0	33.6	54.2
Asset for Disposal	1,050.7	-	-
Current Liability	1,314.9	243.6	358.9
<b>Net Current Assets</b>	<b>-2.4</b>	<b>388.2</b>	<b>462.1</b>
Other Non-Current Asset	15.7	64.1	54.1
<b>Total Assets</b>	<b>317.7</b>	<b>1,607.1</b>	<b>1,815.9</b>

Source: Company, Angel Research

**Consolidated Cash flow**

Y/E March (₹cr)	FY2019	FY2020	FY2021
Operating profit	200.89	264.77	402.59
Net changes in working capital	43.68	16.38	-207.05
Cash generated from operations	244.6	281.2	195.5
Direct taxes paid (net of refunds)	-49.41	-27.81	-52.82
Discontinued operations	-40.56	0.00	0.00
<b>Cash flow from operating activities</b>	<b>154.6</b>	<b>253.3</b>	<b>142.7</b>
Payments for acquisition	-141.769	-212.06	-218.937
Proceeds from sale	0.367	0.119	0.907
Others	(21.9)	(742.3)	62.0
<b>Cash Flow from Investing</b>	<b>204.1</b>	<b>(954.2)</b>	<b>(156.1)</b>
Proceeds from short term borrowings	3.959	25.699	29.852
Proceeds from long term borrowings	34.318	160.755	71.757
Repayment of long term borrowings	-53.476	-37.366	-40.797
Repayment of deferred payment	-0.157	-8.642	-1.247
Repayment of lease liabilities	-2.331	-5.688	-9.134
Others	-16.019	632.066	-117.13
<b>Cash Flow from Financing</b>	<b>(346.1)</b>	<b>766.8</b>	<b>(66.7)</b>
Inc./ (Dec.) in Cash	12.6	66.0	(80.0)
<b>Opening Cash balances</b>	<b>26.4</b>	<b>39.0</b>	<b>105.0</b>
<b>Closing Cash balances</b>	<b>39.0</b>	<b>105.0</b>	<b>24.9</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	4.7	3.9	77.5
P/CEPS	4.0	3.3	53.4
P/BV	4.6	1.2	12.8
EV/Sales	1.3	1.5	10.8
EV/EBITDA	4.6	6.4	38.4
<b>Per Share Data (Rs)</b>			
EPS (Basic)	62.5	75.5	3.8
EPS (fully diluted)	62.5	75.5	3.8
Cash EPS	73.6	89.5	5.4
Book Value	62.7	246.7	22.8
<b>Returns (%)</b>			
ROE	99.7	30.6	16.5
ROCE	53.2	10.9	18.9
<b>Turnover ratios (x)</b>			
Receivables (days)	79.4	82.2	97.2
Inventory (days)	35.4	69.0	71.2
Payables (days)	-	-	-
Working capital cycle (days)	114.8	151.2	168.4

Source: Company, Angel Research

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