

IPO Note: Sona BLW Precision Forgings Ltd.

Industry: Auto Ancillaries

Date: June 11, 2021

Issue Snapshot		Issue Break up	
Company Name	Sona BLW Precision Forgings Ltd.	Issue Size	Allocation Equity Shares*
Issue Opens	June 14, 2021 to June 16, 2021	QIB ex Anchor	30% 57,216,495
Price Band	Rs. 285 to Rs. 291	Anchor Investor	45% 85,824,742
Bid Lot	51 Equity Shares and in multiples thereof.	HNI	15% 28,608,247
The Offer	Public issue of 190,721,649 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue of 10,309,278 Equity Shares* (Rs. 300 cr.) and Offer for Sale of 180,412,371 Equity Shares* (Rs. 5,250 cr.) by Selling Shareholder).	RII	10% 19,072,165
Issue Size	Rs. 5,550 Crore	Total Public	100% 190,721,649
IPO Process	100% Book Building	Equity Share Pre Issue (Nos. Cr.)	57.3
Face Value	Rs. 10.00	Fresh Share (Nos. Cr.)	1.0
Exchanges	NSE & BSE	OFS Share (Nos. Cr.)	18.0
BRLM	Credit Suisse Securities (India) Private Limited, J.P. Morgan India Private Limited, JM Financial Consultants Private Limited, Kotak Mahindra Capital Company Limited and Nomura Financial Advisory And Securities (India) Pvt Ltd	Equity Share Post Issue (Nos. Cr.)	58.3
Registrar	KFin Technologies Private Limited	Market Cap (Rs. Cr.)	16,973.7
		Dilution	32.7%
		Fresh	1.8%
		OFS	30.9%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (Singapore VII Topco III Pte. Ltd.)

Fresh Issue

- Repayment and pre-payment of identified borrowings in full availed by the Company (Rs. 241.1 cr.); and
- General corporate purposes.

Company Highlights

- Sona BLW Precision Forgings Ltd. ("Sona Comstar") is one of India's leading automotive technology companies, 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 US, Europe, India and China, for both electrified and non-electrified powertrain segments.
- According to the Ricardo Report, in CY20, Sona Comstar is among the top 10 players globally in the differential bevel gear market. The company is also among the top 10 global starter motor suppliers based on their exposure to the PV segment. The company have gaining global market share across products to reach a share of approximately 5% for differential bevel gears, 3% for starter motors and 8.7% for Battery electric vehicle ("BEV") differential assemblies, in CY20.
- Sona Comstar has 9 manufacturing and assembly facilities across India, China, Mexico and USA, of which 6 are located in India, from where they supply their products to 6 out of the top 10 global PV OEMs, 3 out of the top 10 global CV OEMs and 7 out of the top 8 global tractor OEMs by volume.
- Sona Comstar has 8 warehouses, of which, 5 are located in India and 3 across USA, Germany, and Belgium. The warehouses work as the delivery point to key customer locations help the customers manage their requirements in an efficient manner and enhances their engagement with them. These warehouses are owned by third parties and their storage space can be flexibly increased depending on the requirement.

- Sona Comstar is a global supplier and they derived ₹1,116.21 crore representing 75% of their income from sale of goods with end-use in the overseas markets, including 36.1% (₹536.81 crore) in North America, 26.5% (₹395.05 crore) in Europe and 7.6% (₹112.96 crore) in China and 25% (₹372.73 crore) of the income was derived from sale of goods with end-use in India, for FY21. The company is also one of the two largest exporters of starter motors from India.
- Sona Comstar is a technology and innovation driven company. With a strong focus on research and development ("R&D"), the company develop mechanical and electrical hardware systems, components as well as base and application software solutions, to meet the evolving demands of their customers. The company is 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.
- Sona Comstar has increased their sales to the EV market at a CAGR of 243.6% from ₹17.42 crore in FY19 to ₹205.70 crore in FY21. They currently supply differential assemblies, differential gears, EV Traction Motors to customers in US, China and India, for use in hybrid and battery electric passenger vehicles, hybrid and battery electric light commercial vehicles, electric 2-wheelers and electric 3-wheelers.
- As at March 31, 2021, they had 3,143 employees, (comprising of 1,204 on-roll and 1,939 off-roll employees), of which 3,067 are employed in India and 76 are employed outside India.
- Company's global OEM customer portfolio includes a Global OEM of EVs, a North American OEM of PVs and CVs, Ampere Vehicles, an Indian OEM of PVs, CVs and EVs, Ashok Leyland, CNH, Daimler, Escorts, Escorts Kubota, Geely, Jaguar Land Rover, John Deere, Mahindra and Mahindra, Mahindra Electric, Maruti Suzuki, Renault Nissan, Revolt Intellicorp, TAFE, Volvo Cars and Volvo Eicher. The company also serve selected leading Tier 1 automotive system suppliers such as Carraro, Dana, Jing-Jin Electric, Linamar and Maschio.






Key expected high growth industry trends

- BEVs are expected to grow at a CAGR of approximately 36% between CY20 to CY25 with increased market penetration, which will be positive for Sona Comstar as they supply EV differential assemblies, differential gears, BSG systems and EV traction motors into this market. BEV global vehicle production volume is expected to grow by 5 times in the next five years from 2.3 million units in CY20 to 11.2 million units in CY25. Further, revenue realization of various components is expected to change according to various degrees of electrification as stated in the Ricardo Report.
- Demand for electric 2-wheelers is expected to grow at a CAGR of 72% to 74% between FY21 to FY26 and the electric 3-wheeler segment is expected to grow at a CAGR of approximately 46% between CY21 to CY25 to reach 400,000 units in sales. Sona Comstar supply e-axles, BLDC motors and motor control units for use in the electric 2-wheeler and 3-wheeler segments.
- According to the Ricardo Report, 2030 targets for India indicate that 70% of all commercial PV, 30% of private PV, 40% of buses, 80% of 2-wheeler and 80% of 3-wheeler sales would be electric.
- Indian CV and PV sales are expected to increase 9% to 10% CAGR and 12% to 14% CAGR, respectively, over FY21 to FY26, with growth of 38% and 23%, respectively in FY22. This will be positive for the company's differential gears business as their estimated market share of the Indian CV and PV markets is approximately 80% to 90% and 55% to 60%, respectively.
- 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 leading to higher usage of differential gears per vehicle as these vehicles are AWD/4WD/multi-axle. Sona Comstar expects this trend to be positive for revenue growth of their differential gear business.

View

- Sona Comstar is one of the leading global companies and gaining market share, diversified across key automotive geographies, products, vehicle segments and customers.
- Sona Comstar is among the top 10 players globally in the differential bevel gear market. They are also among the top 10 global starter motor suppliers based on their exposure to the PV segment in calendar year 2020. They are gaining global market share across products to reach a share of approximately 5% for differential bevel gears, 3% for starter motors and 8.7% for Battery electric vehicle (BEV) differential assemblies, in calendar year 2020.
- Sona Comstar has 9 manufacturing and assembly facilities across India, China, Mexico and USA, of which 6 are located in India and they have 8 warehouses, of which, 5 are located in India and 3 across USA, Germany, and Belgium.
- The company is a leading supplier of BLDC motors in India for the two-wheeler and three-wheeler EV market, according to the Ricardo Report. It derived 13.8% of revenue from the Battery EV market and 26.7% from the micro-hybrid or hybrid market in FY21.
- The momentum for EVs (Electric vehicle) is being driven by the global recognition of the need for clean mobility, norms, targets and incentives provided by several governments to promote EV adoption, improving affordability and performance of EVs, rapid expansion of EV charging infrastructure and OEM plans for electrification.
- Sona Comstar has developed strong in-house capabilities to deliver evolving green technologies for future mobility, with an aggregate expenditure on R&D of Rs. 156 crore during last 3 years. R&D expenditure constituted ~3.3% of revenue.
- Among the available propulsion technologies, BEV has been the fastest growing segment at a CAGR of approximately 46% between CY15 to CY20 and is expected to grow at a CAGR of approximately 36% between CY20 to CY25 with increased market penetration.
- The company reported the highest operating EBITDA margin, PAT margin, ROCE and ROE in FY20, compared with top 10 listed auto component manufacturers in India by market capitalisation. It has consistently delivered more than 26% EBITDA margin and more than 35% average ROE each year over FY19-21. Its operating income growth over FY16-20 has exceeded the average of the same peer set.
- With the product offerings spanning across all types of conventional and electrified powertrains, the company is one of the few automotive technology manufacturers that are well-positioned to gain from high growth industry trends as well as various initiatives introduced by the GoI to facilitate the growth of the automotive industry in India, including the recently announced Rs. 57,042 crore production-linked incentive scheme, which is likely to increase exports resulting in increased demand for differential gears in India.
- Company is focused on diversification of business through the growth of new and existing customer relationships and supplies systems and components to leading OEMs and Tier 1 automotive suppliers in US, Europe, India and China.
- As part of growth strategy, company plans to increase the market share in both the Indian and overseas markets by catering specifically to EV OEMs, across three product groups (ie. Differential assemblies and differential gears, 48V BSG motor & EV traction motors)
- In terms of the valuations, on the higher price band, Sona Comstar demands a P/E multiple of 78.9x based on FY21 post issue fully diluted EPS. Based on its financial data, valuation looks a bit on the expensive side in comparison to its listed peers entities.

Products and their end-use application across various powertrains and vehicle segments

Products	Our Product Offerings Across Vehicle and Powertrain Segments					Description
	Passenger Vehicles	Commercial Vehicles	Off-Highway Vehicles	Three-Wheelers	Two-Wheelers	
Differential Assembly 	BEV & Hybrid	BEV	BEV	BEV	NA	A mechanism including gears that transmits power to the wheels differently, allowing them to rotate at different speeds while executing a turn. Differential assembly is part of the drivetrain.
	ICE	ICE	ICE	ICE		
Differential Gears 	BEV & Hybrid	BEV	BEV	BEV	NA	Gear arrangement which goes into the differential assembly
	ICE	ICE	ICE	ICE		
Starter Motors (Micro-hybrid and Conventional) 	Hybrid	Hybrid	NA	NA	NA	Micro Hybrid- An electric device that apart from cranking the engine, automatically shuts the engine to reduce engine idle time
	ICE	ICE	No presence	No presence	No presence	Conventional- An electric device required to crank the engine and provide initial starting power to the engine
BSG 	Hybrid	Hybrid	NA	No presence	No presence	Synchronous or asynchronous electric machine, which provides torque to the powertrain in motor mode and produces electricity in generator mode
EV Traction Motors (BLDC & PMSM) and Motor Control Units 	BEV & Hybrid	No presence	No presence	BEV	BEV	Synchronous Motors powered by direct current (DC) electricity to drive the electric vehicles - PMSM for BEV & Hybrid EVs, BLDC for electric 2Ws & 3Ws. Motor Control Units regulate the power given to motors for providing the torque and speed to vehicle, and it also charges battery during braking

Details of Manufacturing and Assembly Plants

Location and plant type	Leased/ Owned	Installed capacity (Mar' 21)	Production (FY21)	Capacity Utilization (Fiscal Year)			Manufacturing Processes at the location
				2020	2019	2018	
Gurugram (manufacturing)	1 unit owned, 2 leased	28.70 million gears	21.6	75%	72%	91%	Forging, heat Treatment and machining
Manesar (assembly)	Leased	0.53 differential assemblies	0.39	93%	-	-	Case housing and FDG machining and final assembly
Pune (manufacturing)	Owned	9.33 million gears	6.07	65%	72%	89%	Forging, heat treatment and machining
Chennai (manufacturing)	Owned	3.8 million starter motors	1.96	52%	39%	46%	Manufacture and assembly of kits, starter motors and traction motors
Hangzhou (assembly)	Leased	1 million starter motors	0.13	13%	7%	7%	Starter motor assembly
Mexico (assembly)	Leased	1 million starter motors	0.33	33%	26%	2%	Starter motor assembly
Tecumseh (assembly)	Owned	1 million starter motors	0.2	20%	23%	24%	Starter motor assembly

Revenue from Operations

	FY19		FY20		FY21	
	Sale of Good (Rs. in Cr)	% to Total	Sale of Good (Rs. in Cr)	% to Total	Sale of Good (Rs. in Cr)	% to Total
Systems and Components						
Differential Assembly	61.1	4.50%	65.8	5.60%	261.4	17.60%
Differential Gears	565.8	41.50%	411.1	34.80%	414.4	27.80%
Micro Hybrid Starter Motors	232.5	17.00%	348	29.50%	397.5	26.70%
Conventional Starter Motors	461.3	33.80%	305.5	25.90%	354.1	23.80%
Other Gears	31.8	2.30%	38.7	3.30%	41.9	2.80%
Others	12.5	0.90%	11.3	0.90%	19.6	1.30%
Total	1,365.00	100.00%	1,180.40	100.00%	1,488.90	100.00%
Powertrain						
Battery EV	17.4	1.30%	23.4	2.00%	205.7	13.80%
Micro Hybrid / Hybrid	232.5	17.00%	348	29.50%	397.5	26.70%
Power Source Neutral	641.5	47.00%	492.4	41.70%	512.6	34.40%
ICE Dependent	473.6	34.70%	316.7	26.80%	373.2	25.10%
Total for Sale of Goods	1,365.00	100.00%	1,180.40	100.00%	1,488.90	100.00%
Geographic Markets						
North America	579.2	42.40%	473.1	40.10%	536.8	36.10%
Europe	248	18.20%	276.7	23.40%	395.1	26.50%
India	430.2	31.50%	323	27.40%	372.7	25.00%
China	26.5	1.90%	25.8	2.20%	113	7.60%
Others	81.2	5.90%	81.8	6.90%	71.4	4.80%
Total for Sale of Goods	1,365.00	100.00%	1,180.40	100.00%	1,488.90	100.00%
Top-10 Customers						
North American OEM of PVs and CVs	364.5	26.70%	276.2	23.40%	252.3	16.90%
European OEM of PVs and CVs	206.1	15.10%	237.4	20.10%	229.6	15.40%
Global OEM of EVs	2.2	0.20%	16.4	1.40%	195.1	13.10%
Global OEM of PVs, CVs & EVs	19.1	1.40%	28.1	6.50%	101.5	6.80%
Global Tier 1 Supplier for PVs, CVs, OHVs & EVs	83.8	6.10%	76.7	6.50%	83.4	5.60%
Indian OEM of PVs, CVs and EVs	98.4	7.20%	63.2	5.40%	73	4.90%
Global OEM of OHVs	66.8	4.90%	54.1	4.60%	72.7	4.90%
Indian OEM of PVs, CVs, OHVs & EVs	68.8	5.00%	58.8	5.00%	64.4	4.30%
North American Tier 1 Supplier for PVs & EVs	134.34	9.80%	95.4	8.10%	60.2	4.00%
Asian OEM of PVs and CVs	34.83	2.60%	47.2	3.90%	53.6	3.70%
Total for Top 10 Customers	1,078.30	79.00%	955	80.90%	1,185.90	79.60%
Total for Sale of Goods	1,365.00	100.00%	1,180.40	100.00%	1,488.90	100.00%
Vehicle Segments						
Passenger Vehicle (PV)	846	62.00%	769.8	65.20%	1,019.00	68.40%
Commercial Vehicle (CV)	293.4	21.50%	213.8	18.10%	214.2	14.40%
Off Highway Vehicle (OHV)	223.5	16.40%	194.6	16.50%	254.4	17.10%
Others	2.2	0.10%	2.1	0.20%	1.4	0.10%
Total for Sale of Goods	1,365.00	100.00%	1,180.40	100.00%	1,488.90	100.00%

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21
Share Capital	27.7	47.2	573.0
Net Worth	176.2	1177.9	1303.9
Long Term Borrowings	73.3	176.8	190.7
Other Long Term Liabilities	29.2	167.7	206.8
Short-term borrowings	38.9	84.6	114.5
Other Current Liabilities	188.1	243.6	358.9
Fixed Assets	304.4	1154.8	1299.8
Non Current Assets	15.7	64.1	54.1
Current Assets	261.8	631.8	820.9
Total Assets	1632.6	1850.7	2174.8
Revenue from Operations	699.2	1038.0	1566.3
Revenue Growth (%)		48.4	50.9
EBITDA	200.0	242.3	441.0
EBITDA Margin (%)	28.6	23.3	28.2
Net Profit	100.1	360.3	215.2
Net Profit Margin (%)	14.3	34.7	13.7
Earnings Per Share (Rs.)	5.2	7.1	3.8
Return on Networth (%)	99.5	30.6	16.5
Net Asset Value per Share (Rs.)	5.2	23.1	22.8

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21
Cash flow from Operations Activities	154.6	253.3	142.7
Cash flow from Investing Activities	204.1	(954.2)	(156.1)
Cash flow from Financing Activities	(346.1)	766.8	(66.7)
Net increase/(decrease) in cash and cash equivalents	12.6	66.0	(80.0)
Cash and cash equivalents at the beginning of the year	26.4	39.0	105.0
Cash and cash equivalents at the end of the year	39.0	105.0	24.9

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Sona BLW Precision Forgings Ltd.	1038.0	23.3	0.0	25.1	13.4	78.9	10.6	38.6	10.8	16973.7
Motherson Sumi Systems Ltd.	63536.8	8.5	1.1	12.1	12.0	76.7	6.8	18.9	1.4	79690.5
Bosch Ltd.	9912.1	20.4	0.0	10.0	7.1	97.0	4.8	26.7	4.8	46756.0
Bharat Forge Ltd.	8055.8	16.1	0.8	7.1	7.4	0.0	6.5	37.9	5.6	35289.3
Endurance Technologies Ltd.	6917.7	17.0	0.2	21.7	20.3	40.7	5.9	19.9	3.2	21154.3
Sundram Fasteners Ltd.	3723.2	16.7	0.4	15.7	16.9	48.6	7.4	26.5	4.9	17452.2
Minda Industries Ltd.	5465.1	12.0	0.6	11.9	9.9	203.5	7.4	29.3	3.2	15910.5
Wabco India Ltd.	1929.6	16.3	0.0	12.3	8.6	125.1	6.5	51.2	7.0	12988.1
Mahindra CIE Automotive Ltd.	6050.1	9.2	0.3	3.9	2.2	157.8	1.7	14.6	1.3	8484.6
Sundaram-Clayton Ltd.	19858.7	12.4	4.9	13.0	25.5	23.6	2.6	7.5	0.4	7637.6
Varroc Engineering Ltd.	11121.9	8.3	1.2	3.1	0.4	0.0	2.0	16.1	0.5	5938.0

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