SONA BLW PRECISION

RESULT UPDATE

nuvama institutional equities

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	543
12 month price target (INR)	680
52 Week High/Low	769/555
Market cap (INR bn/USD bn)	356/4.1
Free float (%)	70.0
Avg. daily value traded (INR mn)	1,335.9

SHAREHOLDING PATTERN

	Dec-24	Sep-24	Jun-24
Promoter	28.03%	28.04%	29.71%
FII	33.25%	33.55%	32.03%
DII	31.15%	30.95%	29.50%
Pledge	0.00%	0.00%	0.00%

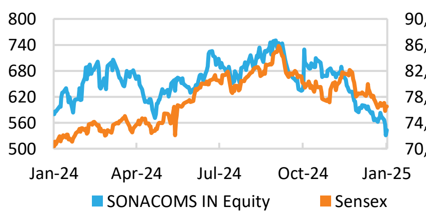
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	31,848	35,954	47,244	54,708
EBITDA	9,021	9,872	12,728	14,597
Adjusted profit	5,105	6,029	8,361	9,130
Diluted EPS (INR)	8.7	9.7	13.5	14.7
EPS growth (%)	29.8	11.4	38.7	9.2
RoAE (%)	20.7	14.9	14.6	14.5
P/E (x)	62.3	56.0	40.3	36.9
EV/EBITDA (x)	35.2	32.3	25.1	21.9
Dividend yield (%)	0.6	0.6	0.9	0.9

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY25E
Revenue	47,244	54,708	(3)	(4)
EBITDA	12,728	14,597	(3)	(7)
Adjusted profit	8,386	9,160	(2)	(7)
Diluted EPS (INR)	13.5	14.7	(2)	(7)

PRICE PERFORMANCE



Q3 undershoots; outlook stays positive

Q3FY25 revenue/EBITDA grew 12%/3% YoY to INR8.7bn/INR2.3bn, slightly below estimates. Factoring in a lower growth assumption for the underlying industry and order execution delays, we are tweaking down FY25–27E EBITDA by 3–7%. Order book edged up to INR232bn in Dec-24 from INR231bn in Sep-24, with new orders in differential assembly/gears and sensors/software. We anticipate FY25–27E revenue/earnings CAGR of 23%/21% driven by a large order book and acquisition of Railways business.

Sona remains a key beneficiary of electrification in both overseas and domestic markets. Retain 'BUY' with a TP of INR680 (earlier INR730) based on 50x/25x FY27E EPS for core/railway business.

Q3FY25 EBITDA slightly below estimates

Revenue grew 12% YoY to INR8.7bn (estimate: INR8.9bn) owing to a dip in Europe revenue. BEV revenue surged 48% YoY, and its revenue share increased to 39%. EBITDA grew 3% YoY to INR2.3bn (estimate: INR2.4bn), below estimate due to adverse product/regional mix. EBITDA margin contracted 230bp YoY to 27%. Other income soared 835% YoY to INR468mn driven by QIP inflows of INR24bn. All in all, adjusted PAT rose 17% to INR1.6bn (estimate: INR1.5bn), above estimate led by higher other income.

Sizable order book of INR232bn

Order book stood at INR232bn in Dec-24 compared with INR231bn in Sep-24. Of this pending order book, 76% pertains to EVs. The company is engaged in 57 EV programs with 32 customers. The bulk of order book is realised in years three–five of the contract, which provides high-growth visibility. Sona has secured a new order from an existing customer for a differential assembly of E-PV for the Indian market amounting to INR3bn. The production is expected to start from Q2FY27. However, one EV order from Europe has been delayed by one year, and one India e-2W order has been delayed by six months.

Revenue CAGR of 23% over FY25–27E

We reckon a 23% revenue CAGR over FY25–27E led by a large order book and acquisition of the railways business. The company is strengthening its traction motor portfolio in collaboration with Enedym and Equipmake. Furthermore, management is scouting for opportunities in the mobility space and around the EPIC theme (electric, personalised, intelligent and connected). We reckon the railway business would contribute 20% to Sona's FY27E revenue.

Financials

Year to March	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)
Net Revenue	8,680	7,766	11.8	9,251	-6.2
EBITDA	2,342	2,273	3.1	2,549	-8.1
Adjusted Profit	1,569	1,327	18.2	1,550	1.2
Diluted EPS (INR)	2.5	2.3	11.6	2.5	1.2

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	31,848	35,954	47,244	54,708
Gross profit	18,106	20,314	26,551	30,746
Employee costs	2,501	3,163	4,447	5,510
Other expenses	6,584	7,279	9,376	10,639
EBITDA	9,021	9,872	12,728	14,597
Depreciation	2,202	2,603	3,198	3,787
Less: Interest expense	258	274	262	250
Add: Other income	239	1,149	1,674	1,394
Profit before tax	6,800	8,145	10,943	11,954
Prov for tax	1,535	1,914	2,572	2,809
Less: Other adj	(87)	(110)	0	0
Reported profit	5,173	6,113	8,361	9,130
Less: Excp.item (net)	0	0	0	0
Adjusted profit	5,105	6,029	8,361	9,130
Diluted shares o/s	586	621	621	621
Adjusted diluted EPS	8.7	9.7	13.5	14.7
DPS (INR)	3.1	3.5	4.7	5.1
Tax rate (%)	22.6	23.5	23.5	23.5

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	5,864	6,212	6,212	6,212
Reserves	20,639	48,262	53,742	59,727
Shareholders funds	26,503	54,474	59,954	65,939
Minority interest	1,498	1,483	1,468	1,453
Borrowings	2,331	2,231	2,131	2,039
Trade payables	4,526	5,110	6,714	7,775
Other liabs & prov	1,591	1,633	1,750	1,827
Total liabilities	38,649	67,415	75,281	82,813
Net block	15,987	17,385	22,187	22,400
Intangible assets	3,518	3,518	15,518	15,518
Capital WIP	3,636	3,636	3,636	3,636
Total fixed assets	23,142	24,539	41,342	41,554
Non current inv	417	27,417	15,417	19,417
Cash/cash equivalent	2,742	1,518	204	629
Sundry debtors	6,483	7,319	9,617	11,136
Loans & advances	0	0	0	0
Other assets	4,531	5,115	6,722	7,784
Total assets	38,649	67,415	75,281	82,813

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
Gross profit margin (%)	56.9	56.5	56.2	56.2
Staff cost (% sales)	8.2	8.8	9.4	10.1
Other expenses (% sales)	20.7	20.2	19.8	19.4
EBITDA margin (%)	28.3	27.5	26.9	26.7
Net profit margin (%)	16.0	16.8	17.7	16.7
Revenue growth (% YoY)	19.0	18.6	31.4	15.8
EBITDA growth (% YoY)	29.6	9.4	28.9	14.7
Adj. profit growth (%)	30.0	18.1	38.7	9.2

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	6,713	8,035	10,943	11,954
Add: Depreciation	2,202	2,603	3,198	3,787
Interest (net of tax)	43	274	262	250
Others	167	0	0	0
Less: Changes in WC	(644)	(682)	(1,876)	(1,240)
Operating cash flow	6,928	8,315	9,955	11,942
Less: Capex	(3,191)	(4,000)	(20,000)	(4,000)
Free cash flow	3,736	4,315	(10,045)	7,942

Assumptions

Year to March	FY24A	FY25E	FY26E	FY27E
Diff. Gears (INRmn)	9,703.6	10,676.6	11,636.7	12,529.9
Starter Motors (INRmn)	10,310.1	11,031.8	11,693.7	12,278.4
Diff. Assembly (INRmn)	7,277.7	8,636.7	10,419.0	12,074.4
Others (INRmn)	4,556.4	5,609.2	6,369.6	7,138.1
Railway biz (INRmn)	0	0	7,125.0	10,687.5

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	20.7	14.9	14.6	14.5
RoCE (%)	25.5	19.0	18.4	18.4
Inventory days	89	86	80	85
Receivable days	72	70	65	69
Payable days	110	112	104	110
Working cap (% sales)	20.3	19.3	19.3	19.3
Gross debt/equity (x)	0.1	0	0	0
Net debt/equity (x)	0.1	0.1	0.1	0.1
Interest coverage (x)	26.4	26.6	36.4	43.2

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	62.3	56.0	40.3	36.9
Price/BV (x)	12.0	6.2	5.6	5.1
EV/EBITDA (x)	35.2	32.3	25.1	21.9
Dividend yield (%)	0.6	0.6	0.9	0.9

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	29.8	11.4	38.7	9.2
RoE (%)	20.7	14.9	14.6	14.5
EBITDA growth (%)	29.6	9.4	28.9	14.7
Payout ratio (%)	34.7	35.4	34.8	34.8

Source: Company and Nuvama estimates

Q3FY25 conference call: Key takeaways

- **Q3FY25 result performance:** Revenue grew by 12% YoY to INR8.7bn (est.: INR8.9bn), marginally below estimates, owing to decline in Europe revenues. EBITDA grew by 3% to INR2.3bn (est.: INR2.4bn), below estimates, on adverse product/regional mix. EBITDA margin contracted by 230bp to 27%. All in all, adjusted PAT grew by 17% to INR1.6bn (est.: INR1.5bn), above estimates led by higher other income.

- **Q4FY25 revenue performance** is expected to be weak, led by the supply impact to a major customer on model upgradation. The loss of revenue is expected to be recovered by H1FY26E.

- **Order book** stood at INR232bn in Dec-24 compared with INR231bn in Sep-24. Of this pending order book, 76% is from EVs. Sona has secured a new order from an existing customer for differential assembly of E-PV for the Indian market amounting to INR3bn. The production is expected to start from Q2FY27. One EV order from Europe has been delayed by one year, and one India e-2W order has been delayed by six months.

- **BEV** revenue in Q3FY25 surged 48% YoY to INR3.3bn, with a revenue share of 39% in Q3FY25. The company has 57 EV programs across 32 different customers, of which 15 programs are fully ramped up, 14 are in the ramp-up phase, and the remaining 28 are not yet in production.

- **Segment mix (9MFY25)**: PV: 72%, CV: 10%, E2W/E3W: 8%, Non-auto: 8%. The CV share has decreased from 14% in FY24 to 10% in 9MFY25 due to subdued domestic demand while the non-auto share fell from 10% to 8%, due to slower demand in the off-highway segment in North America and India.

- **Product mix (9MFY25):** BEV: 36%, Micro-hybrid: 20%, Power source agnostic: 3%, and ICE-dependent: 9%. The BEV share continues to rise from 29% in FY24 to 36% in 9MFY25. The hybrid revenue share has decreased from 24% in FY24 to 20% in 9MFY25, reflecting a slowdown in the European market.

- **New product:** In partnership with Novelic, Sona has introduced 180-degree field of view radar sensor, thereby making a breakthrough in short-range radar sensors. This product replaces four ultrasonic sensors and even outperforms them. It is cost-efficient and has universal application across various vehicle segments.

- **ESOP costs** increased to INR62mn in Q3FY25 as compared to INR58mn in Q3FY24 and INR83mn in Q2FY25.

- **Investment:** Management has approved investment to the tune of USD4mn (1.5% equity stake) in ClearMotion. This company has developed an active suspension technology, which has 5x lower latency than existing alternatives. For this technology, Sona will be supplying its BLDS motor controller-based actuator. The total addressable market (TAM) for this technology is expected to be USD14bn for the premium car segment. This investment allows Sona to collaborate with ClearMotion as a partner and supplier.

Exhibit 1: Changes in estimates: Reducing FY25–27E EBITDA by 3–7% on lower growth in underlying industry and delay in order execution

INR mn	Old estimates			New estimates			Variance (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net revenues	36,401	48,550	57,140	35,954	47,244	54,708	(1)	(3)	(4)
EBITDA	10,158	13,141	15,622	9,872	12,728	14,597	(3)	(3)	(7)
Adjusted Profit	6,337	8,536	9,855	6,246	8,386	9,160	(1)	(2)	(7)
Diluted EPS (INR)	10.2	13.7	15.9	10.1	13.5	14.7	(1)	(2)	(7)

Source: Nuvama Research

Exhibit 2: Key revenue assumptions: Revenue CAGR of 23% over FY25–27E

Revenue summary	FY23	FY24	FY25E	FY26E	FY27E	CAGR (%) FY25-FY27E
Differential assembly	5,862	7,278	8,637	10,419	12,074	18%
Growth (%)	7%	24%	19%	21%	16%	
Mix (%)	22%	23%	24%	22%	22%	
Differential Gears	8,156	9,704	10,677	11,637	12,530	8%
Growth (%)	60%	19%	10%	9%	8%	
Mix (%)	30%	30%	30%	25%	23%	
Starter Motors	9,175	10,310	11,032	11,694	12,278	5%
Growth (%)	5%	12%	7%	6%	5%	
Mix (%)	34%	32%	31%	25%	22%	
Traction motors/ Others	3,564	4,556	5,609	6,370	7,138	13%
Growth (%)	251%	28%	23%	14%	12%	
Mix (%)	13%	14%	16%	13%	13%	
Railway business				7,125	10,688	
Growth (%)					50%	
Mix (%)				15%	20%	
Total	**26,756**	**31,848**	**35,954**	**47,244**	**54,708**	**23%**
Growth (%)	32%	19%	13%	31%	16%	

Source: Company, Nuvama Research

Exhibit 3: Quarterly snapshot (consolidated); EBITDA slightly below estimates

Year to March	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)
Net revenues	8,680	7,766	11.8	9,251	(6.2)
Raw material	3,826	3,177	20.4	4,069	(6.0)
Staff costs	816	732	11.4	790	3.3
Other expenses	1,696	1,583	7.1	1,842	(8.0)
Total expenditure	6,337	5,493	15.4	6,702	(5.4)
EBITDA	2,342	2,273	3.1	2,549	(8.1)
Depreciation	666	559	19.0	626	6.3
EBIT	1,677	1,714	(2.2)	1,923	(12.8)
Less: Interest Expense	58	73	(21.4)	106	(45.4)
Add: Other income	468	50	834.5	210	122.6
Add: Prior period items					
Add: Exceptional items	(57)	0		(110)	(48.3)
Profit before tax	2,087	1,690	23.5	2,028	2.9
Less: Provision for Tax	523	354	47.5	482	8.5
Less: Minority Interest	(5)	9		(4)	
Add: Share of profit from associates					
Reported Profit	1,512	1,327	13.9	1,439	5.0
Adjusted Profit	1,569	1,327	18.2	1,550	1.2
No. of Diluted shares outstanding	621	586	6.0	621	0.0
Adjusted Diluted EPS	2.5	2.3	11.6	2.5	1.2
As a % revenues					
Year to March	**3QFY25**	**3QFY24**	**bps change (YoY)**	**2QFY25**	**bps change (QoQ)**
Gross margins	55.9	59.1	(317)	56.0	(9)
Raw material	44.1	40.9	317	44.0	9
Staff costs	9.4	9.4	(3)	8.5	86
Other expenses	19.5	20.4	(86)	19.9	(38)
EBIDTA	27.0	29.3	(228)	27.6	(57)
Adjusted net profit	18.1	17.1	99	16.8	133
Tax rate (% PBT)	25.1	21.0	409	23.8	128

Source: Company, Nuvama Research

Company Description

Sona is one of India's leading automotive technology companies, designing, manufacturing, and supplying highly engineered, mission critical automotive systems and components. It is the result of merger between driveline business of SONA group (owned by Mr Sunjay Kapur and group) and Comstar (owned by Blackstone group). The systems and component offerings include differential assemblies and precision forged differential bevel gears for both electrified and non-electrified PVs, CVs, OHVs and three-wheelers. Sona has nine manufacturing and assembly plants across India, China, Mexico, and the US, of which six are located in India. As of FY24, Differential Gears, Differential Assembly, Micro Hybrid Starter Motors, Conventional Starter Motors, Differential Assembly, Traction Motors and Other parts contribute 32%, 24%, 24%, 10%, 5% and 5% of the total revenue respectively. Recently, it has entered the Railways space, with acquisition of Escorts' Railway division.

Investment Theme

We reckon 23% revenue CAGR over FY25–27E, led by large order-book and acquisition of railways business. The order book stands at INR232bn as of Dec-24, compared with INR231bn in Sep-24. Of this pending order book, 76% pertains to EVs. The company is engaged in 57 EV programs with 32 customers. Bulk of the order book is realised in years three– five of the contract, which provides high-growth visibility. The company is strengthening its traction motor portfolio in collaboration with Enedym and Equipmake. Furthermore, management is scouting for opportunities in the mobility space and around the EPIC theme (electric, personalised, intelligent, and connected). We expect railway business to contribute 20% to Sona's FY27E revenue.

We expect earnings CAGR to be healthy at 21% over FY25-27E. Retain 'BUY' with a TP of INR680 based on 50x FY27E EPS for core business and Railways business at 25x FY27E EPS.

Key Risks

- Deceleration in order-wins: Sona's inability to maintain the order book momentum would hamper its earnings momentum in the next phase of growth over FY25–30
- New products may fail to gain acceptance akin to differential assembly
- Global demand slowdown: Since its fortunes are linked to global auto volumes, any slowdown in overall industry volumes would have a bearing on SONA's revenue growth.
- Demand slowdown in products for which it supplies: The success of models to which it supplies is no less critical to SONA's revenue growth

Additional Data

Management

CEO	Vivek Vikram Singh
CFO	Rohit Nanda
CTO	Praveen Chakrapani Rao
CS	Ajay Pratap Singh
Auditor	Walker Chandiok & Co LLP

Holdings – Top 10*

	% Holding		% Holding
SBI Funds	8.22	ICICI Pru AMC	2.22
Rep. of Singapore	6.97	Canara Robecco	1.87
Axis AMC	3.43	Monetary Authority	1.69
Vanguard Group	2.64	Goldman Sachs	1.61
Blackrock	2.49	Mirae Asset	1.58

**Latest public data*

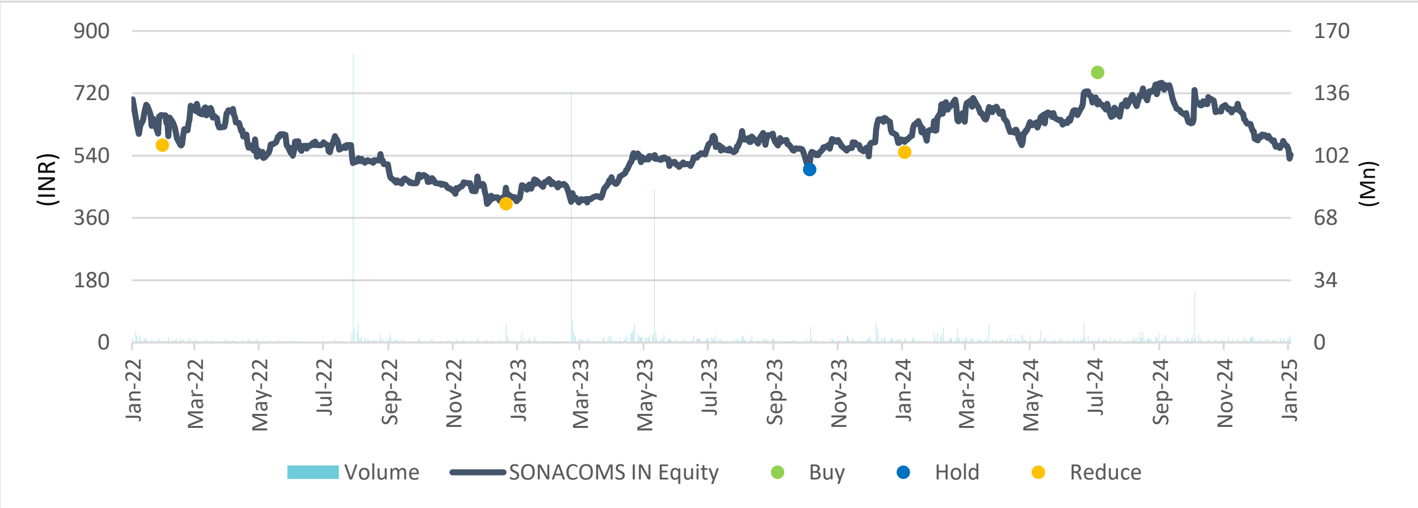
Recent Company Research

Date	Title	Price	Reco
23-Oct-24	Sona BLW Precision Forgings (SONACOMS IN; *Result Update*	644	Buy
24-Jul-24	Strong showing; robust growth prospects; *Result Update*	687	Buy
30-Apr-24	Strong performance; positives priced in; *Result Update*	625	Reduce

Recent Sector Research

Date	Name of Co./Sector	Title
16-Jan-25	CEAT	EBITDA undershoots; margins to improve; *Result Update*
15-Jan-25	Minda Corporation	Augmenting EV focus with Flash tie-up; *Nuvama Flash*
11-Dec-24	CEAT	Camso buyout to expand OHT presence; *Company Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	227
Hold	<15% and >-5%	62
Reduce	<-5%	27

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