

Details of the Issue	
Price Band	₹ 285 - ₹ 291
Issue Size	₹ 5,500 Cr
Opening Date	Jun 14, 2021
Closing Date	Jun 16, 2021
Face Value	₹10
Bid Lot	51
Listing on	BSE, NSE

Objects of the Issue	
Repayment or prepayment of company's borrowings fully or partially.	
General corporate purposes.	

Lead Managers	
Credit Suisse Securities (India) Private Limited	
J.P. Morgan India Private Limited	
JM Financial Consultants Private Limited	
Kotak Mahindra Capital Company Limited	
Nomura Financial Advisory And Securities (India) Pvt Ltd	

Registrar	
KFintech Private Limited	

Investment Details	
No. of shares at cut-off	663
Max. Amount to be paid	₹ 1,92,933

Offer Details	
Fresh Issue	₹ 300 cr
OFS	₹ 5,250 cr

Source: RHP, GEPL Capital Research

Company Background

The company is a leading automotive parts manufacturer and supplier to domestic and global automotive players and having a diversified operation. Business can be categorized in two segments 1) **Driveline parts-** differential assembly and the gears and 2) **Motors-** a) Starter Motor & BSG and b) EV Traction Motors and Motor Control units

Sona BLW was incorporated in 1995, expertise in designs and manufactures precision-forged gears and differential assemblies. In 2019 the company acquired "Comstar" (added many products include starters for ICE Engines & micro- and mid-hybrid vehicles and traction Motors for EVs) the combined company is called "Sona Comstar".

Revenue Mix - It supplies components to OEMs across the US, Europe, India and China, for both electrified and non-electrified powertrain segments. The company has a welldiversified revenue stream with 59% revenue from ICE, 14% pure electric vehicle and 27% more coming from hybrid and micro hybrid.

Sona Comstar is among two of the largest starter motor exporters from India with a combined market share of 70%. The company has 3% market share globally. In addition, introduction of BSG motor to aid revenue growth.

Sona Comstar has been supplying differential gears in the global EV market since April 2016 and differential assemblies since 2018. The company supplies differential assembly as well as the e-axle in electric cars and 3Ws and sees huge opportunity for medium to long term due to faster adoption of EVs worldwide. Electric vehicle (EV) drivetrains are more complicated than conventional powertrains, This in turn results in higher price realization for differential gear assembly in EVs than conventional powertrains. The company's global market share of BEV differential assemblies in CY20 was 8.7%.

Key Competitors in the Motors segment - Denso, Borg Warner, SEG Automotive, Hitachi and Valeo
Promoters - Sunjay Kapur, Sona Autocomp Holding Private Limited and Singapore VI Topco III Pte. Ltd.

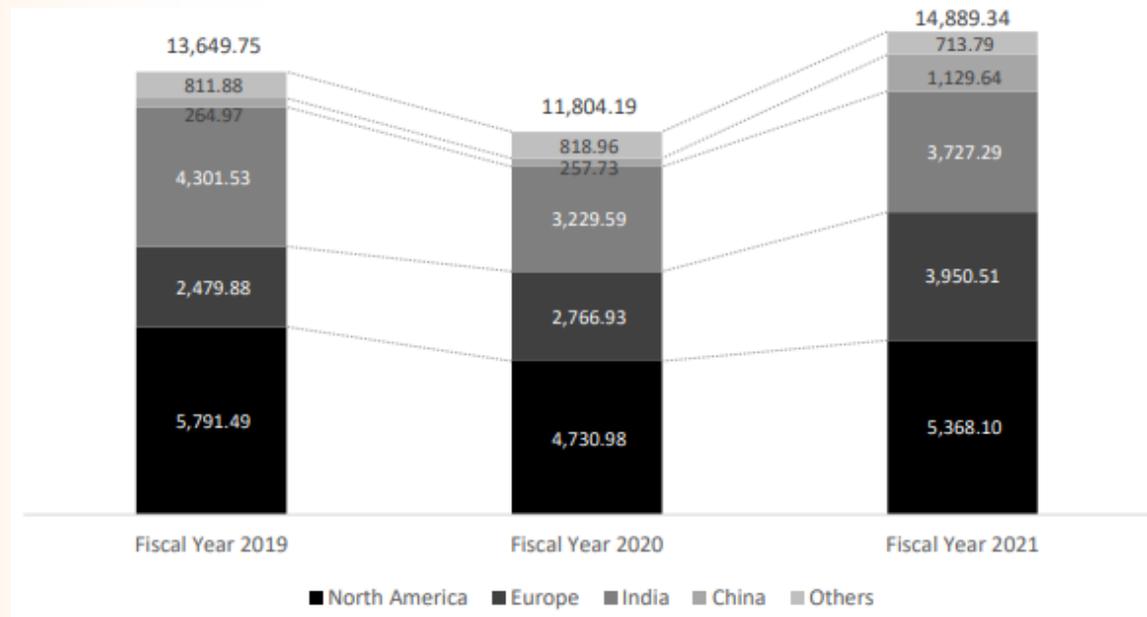


Fig. Sales over FY19 - FY21

Strengths & Strategies

Good presence in th EV market with growing market share

The high power density EV systems and ability to engage with customers from concept to testing, has resulted in the co. being awarded 15 development programs for EV systems and components by 10 different customers as at March 31, 2021, of which active production process has commenced for eight programs and regular production is yet to commence for seven programs.

The co. has increased their global market share of differential gears and starter motors to 5.0% and 3.0%, respectively in calendar year 2020 from 4.5% and 2.5%, respectively in calendar year 2019 and their global market share of BEV differential assemblies was 8.7% in calendar year 2020.

Geographic Expansion

The company also plans to expand its presence in China for supply of micro-hybrid starter motors for PVs and LCVs as well as our 48V BSG systems for hybrid PVs, as it expects to benefit from China's growing position as a leading market for EV manufacturers. As part of its growth strategy, it set-up an assembly plant in China in 2015 and Mexico in 2017, with an aim to capture higher market share in the Chinese and North American markets.

Integrated Solution

The co. is well placed to combine its motor and driveline capabilities to offer a compelling value proposition to their EV customer base. Integrated drive units have three key components namely, differential assembly, high voltage traction motors and high voltage inverters. Since they already manufacture electric drive motors and inverters for electric 2-wheelers and hybrid PVs, as well as differential assemblies for battery electric passenger vehicles, they are in a unique position to integrate the three key constituents of the electric powertrain into a single matched unit, offering an efficient and compact solution to EV OEMs.

Long term client relationships

The company typically participates in a lengthy and rigorous vendor selection process with their customers, which can take up to two to three years from the date of issue of a RFQ for securing business.

They invest in securing new customer relationships through this intense, time consuming and costly vendor selection process, as it enables them to better understand their customers' design and performance needs, and demonstrates their capabilities in providing end-to-end integrated and technologically advanced customized solutions for developing critical automotive systems and components.

COVID 19 Impact & Risks

- ✓ **The company derives a significant portion of revenue from top ten customers.** For Fiscal Years 2019, 2020 and 2021, income from sale of goods to the top ten customers amounted to ₹10,794.03 million, ₹9,536.74 million and ₹11,858.81 million, respectively, representing 79.0%, 80.8% and 79.6% of the total income from sale of goods for Fiscal Years 2019, 2020 and 2021.
- ✓ Income from sale of goods to the top three customers amounted to ₹5,733.06 million, ₹5,302.87 million and ₹6,770.19 million, representing 42.0% , 44.9% and 45.4% of the total income from sale of goods for Fiscal Years 2019, 2020 and 2021, respectively.
- ✓ Four of the development programs which were due to commence production in Fiscal Year 2021 have been delayed. However, the Pro Forma consolidated income from sale of goods for Fiscal 2021 was ₹14,889.34 million, which showed a year on year growth of 26.1% in the Pro Forma consolidated income from sale of goods of ₹11,804.19 million for Fiscal 2020.

Valuation & Recommendation

Despite the highly cyclical nature of the auto-ancillary industry, the company has been able to maintain its margins in the 26 - 28% range. Sona Comstar has also spent a significant % of sales on R&D and plans to increase its focus on the precision EV space. It currently has 14% of its revenue from Battery EV's and 27% of its revenues from Hybrid EV's and plans to increase this number going ahead.

Sona Comstar has also been awarded 15 EV systems and component development programs by 10 different customers. Further, the long standing nature of the relationships with clients also provides long term visibility of revenues.

Considering the significant amount of R&D and existing customer relations we believe the company is well equipped to cater to the fast growing EV powertrain segment, which requires significant technical expertise.

The offer is priced at ~ 10.6 x Price to FY21 Sales. Although this seems higher than the industry average, we believe it is justified considering the opportunities and rapidly growing market share.

We recommend a SUBSCRIBE rating to the issue.

Financial Snapshot

Particulars	FY21	FY20	FY19
Equity Share capital	5729.8	477.48	277.18
Net worth	13039.01	11779.41	1737.77
Total income	15686.41	10437.65	7025.01
EBITDA	4410.16	2422.77	2002.02
PAT	2151.65	3603.43	1729.71
EPS	3.76	7.06	5.2
BVPS	22.76	23.07	5.22
Total borrowings	3662.6	3067.82	1460.04

(In ₹ million except per share data)

Source: RHP, GEPL Capital Research

NOTES

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