



IPO Report

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12th June 21

Snapshot

Sona BLW Precision Forgings 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 nonelectrified powertrain segments.

VALUATION

Sona Comstar is bringing the issue at price band of Rs 285-291 per share at p/e multiple 79 on post issue FY21 eps basis. We like the fact that company is amongst the top 10 global differential bevel gear suppliers & amongst the top 10 global starter motor suppliers. Also 1 in every 12 BEVs in the world uses company's differential assembly. Company with its leading market share in key products and markets is also global supplier to marquee Customers.

On the financial performance front, company has posted financial performance which is almost in line with the peers or slightly better than that during last couple of years.

However on valuation part, pricing seems to be on higher side on the basis of current financials.

Hence looking after all aspects we recommend to "Subscribe" the issue.

Price Band (Rs./Share)	285-291
Opening date of the issue	14 th June , 2021
Closing Date of the issue	16 th June, 2021
No of shares pre issue	57.29 Cr
Fresh Issue (Rs)	300 Cr
Offer For Sale (Rs)	5250 Cr
Issue size (Rs. Cr)	5550 Cr.
Face Value (Rs/ share)	10
Bid Lot	51

Book Building

QIBs (Including Anchor)	Rs 4162.50 Cr (75.00%)
Non-Institutional	Rs 832.50 Cr (15.00%)
Retail	Rs 555 Cr (10.00%)

Lead managers	Kotak Mahindra Capital Ltd. Credit Suisse Securities Ltd JP Morgan India Private Ltd Nomura Financial Advisory
Registrar to the issue	KFIN Technologies Private Ltd.

WHAT WE LIKE

Strong research and development and technological capabilities

Sona Comstar have developed strong in-house capabilities to deliver evolving green technologies for future mobility, with Decent expenditure on R&D. Company's R&D expenditure during Fiscal Years 2019, 2020 and 2021, constituted 1.7%, 3.3% and 5.8% as a percentage of its revenue from operations for Fiscal Years 2019, 2020 and 2021, respectively in comparison, average spend of the top ten listed auto component players of 0.9% over Fiscal 2018 to Fiscal 2020. Sona Comstar hold assignment of license rights in relation to eight patents in USA. Company have been granted one patent in USA, one patent in China and one patent in the United Kingdom and await 21 patent approvals in India.

Robust Clientele

As at March 31, 2021, Sona Comstar have been awarded 58 programs from 27 customers across its product portfolio, from customers in India and overseas, where the start of production was either during Fiscal Year 2021 or a period subsequent to Fiscal Year 2021. Company have long-standing relationships of 15 years and more with 13 of its top 20 customers. Some of company's key OEM customers include 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. Company also serve selected leading Tier 1 automotive system suppliers such as Carraro, Dana, Jing-Jin Electric, Linamar and Maschio.

Consistent financial performance with industry leading metrics

As compared to the publicly listed top ten auto-component manufacturers in India by market capitalization, company is the highest in terms of operating EBITDA margin, PAT margin, ROCE and ROE and one of the top ten auto-component manufacturers in India in terms of operating EBITDA and profit before tax in Fiscal Year 2020. For Fiscal Years 2019, 2020 and 2021. Company's total operating income has grown at a CAGR of 10.9% from Fiscal 2016 to 2020, as compared to the average CAGR of 8.1% for the top ten listed auto-component manufacturers in India by market capitalization, in the same period



COMPANY BACKGROUND

Global Supplier

Sona Comstar is a global supplier and it derived ₹11,162.05 million representing 75.0% of its income from sale of goods with end-use in the overseas markets, including 36.1% (₹5,368.10 million) in North America, 26.5% (₹3,950.51 million) in Europe and 7.6% (₹1,129.64 million) in China and 25.0% (₹3,727.29 million) of company's income was derived from sale of goods with end-use in India, for Fiscal 2021.

Manufacturing Facilities

Company have nine manufacturing and assembly facilities across India, China, Mexico and USA, of which six are located in India, from where company supply its 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.

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	N/A	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	N/A	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 PVs, 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

The table below sets forth the breakdown of company's income from sale of goods across its systems and components, and as a percentage of its total sale of goods for the periods indicated.

Sale of Goods	For Fiscal Year 2019		For Fiscal Year 2020		For Fiscal Year 2021	
	Rs 13649.75 million		Rs 11801.19			
	Sale of Goods (Rs Mn)	% of Sales of Goods	Sale of Goods (Rs Mn)	% of Sales of Goods	Sale of Goods (Rs Mn)	% of Sales of Goods
Differential Assembly	611.00	4.5%	657.85	5.6%	3613.99	17.6%
Differential Gears	5657.86	41.5%	4111.20	34.8%	4144.04	27.8%
Micro Hybrid Starter Motors	2325.25	17.0%	3480.40	29.5%	3975.34	26.7%
Conventional Starter Motors	4613.28	33.8%	3054.50	25.9%	3541.22	23.8%
Other Gears	317.78	2.3%	387.31	3.3%	418.75	2.8%
Others	124.58	0.9%	112.93	0.9%	196.00	1.3%

Source:RHP



INVESTMENT RATIONALE

<p><i>leading manufacturers and suppliers to global EV markets</i></p>	<p>Sona Comstar’s global market share of BEV differential assemblies in 2020 was 8.7%. Company is one of the leading suppliers of BLDC motors in India for the two-wheeler and three-wheeler EV market. Company is among a limited number of players who are well placed to combine motor and driveline capabilities to offer a compelling value proposition to its EV customer base. This complexity presents a unique opportunity in electrification for company, who is committed to building capabilities and products by bringing different elements (mechanical, electrical and software) of the puzzle together under one roof.</p>
<p><i>One of the leading global companies and gaining market share</i></p>	<p>Company is one of the two largest exporters of starter motors from India and amongst the top ten global starter motor suppliers in calendar year 2020 based on exposure to the PV segment and market share. Company have increased its 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 its global market share of BEV differential assemblies was 8.7% in calendar year 2020. Company is the largest manufacturer of differential gears for PV, CV and tractor OEMs in India, with an estimated market share of approximately 55% to 60%, 80% to 90%, and 75% to 85%, respectively.</p>
<p><i>Consistent financial performance with industry leading metrics</i></p>	<p>Despite the overall slowdown in the global automotive sector in Fiscal Year 2020 and the impact of the COVID- 19 pandemic, company was able to maintain EBITDA margins at 28.9%, 26.7% and 28.2% for Fiscal Years 2019, 2020 and 2021. Company’s consolidated income from sale of goods amounted to ₹14,889.34 million in Fiscal 2021 as compared to ₹11,804.19 million for Fiscal 2020, representing a year-on-year growth of 26.1%.</p>
<p><i>Strong Industry Trends</i></p>	<p>BEVs are expected to grow at a CAGR of approximately 36% between calendar years 2020 to 2025 with increased market penetration, according to the Ricardo Report, which will be positive for company as it supply EV differential assemblies, differential gears, BSG systems and EV traction motors into this market. Also, demand for electric two-wheelers is expected to grow at a CAGR of 72% to 74% between Fiscals 2021 to 2026, according to the CRISIL and the electric three-wheeler segment is expected to grow at a CAGR of approximately 46% between calendar years 2021 to 2025 to reach 400,000 units in sales, according to the Ricardo Report. This will be beneficial for company as it supply e-axles, BLDC motors and motor control units for use in the electric two-wheeler and three-wheeler segments. According to the CRISIL Report, Indian CV and PV sales are expected to increase 9% to 10% CAGR and 12% to 14% CAGR, respectively, over Fiscals 2021 to 2026, with growth of 38% and 23%, respectively in Fiscal 2022. This will be positive for company’s differential gears business as company’s estimated market share of the Indian CV and PV markets is approximately 80% to 90% and 55% to 60%, respectively.</p>



Details of company's 15 development programs for EV systems and components

Customer	Program Name	End-Customer Location	Systems & Components	Year of Win	Year Of SOP
Global Tier 1 Supplier for PVs, CVs, OHVs and EVs - supplying to Global OEM of EVs ₁	Program A1	North America	Differential Gears	Fiscal 2016	2016
Global Tier 1 Supplier for PVs, CVs, OHVs and EVs - supplying to Global OEM of EVs ₁	Program A2	North America	Differential Gears	Fiscal 2020	2019
Global OEM of EVs ₁	Program B1	North America	Differential Assembly	Fiscal 2018	2019
Global OEM of EVs ₁	Program B2	North America	Differential Assembly	Fiscal 2020	2020
Global OEM of EVs ₁	Program B3	China	Differential Assembly	Fiscal 2021	2020
Indian OEM of Electric 2Ws- Scooters ₁	Program C	India	BLDC Motor	Fiscal 2021	2020
Indian OEM of Electric 3Ws ₁	Program D	India	E-Axle	Fiscal 2021	2021
Indian OEM of PVs, CVs, OHVs and EVs ₁	Program E1	India	E-Axle	Fiscal 2021	2021
North American Tier 1 Supplier for PVs, CVs, OHVs, and EVs - supplying to Global OEM of EVs ₂	Program F	North America	Differential Gears	Fiscal 2020	2021
Chinese Tier 1 Supplier for EVs - supplying to Global OEM of PVs and EVs ₂	Program G	North America	Differential Assembly	Fiscal 2020	2021
European OEM of PVs and EVs ₂	Program H	Europe	Differential Assembly	Fiscal 2021	2022
Indian OEM of PVs, CVs, OHVs and EVs ₂	Program E2	India	Differential Assembly	Fiscal 2020	2022
European Tier 1 Supplier for PVs and EVs - supplying to Chinese OEM of EVs ₃	Program I*	China	Differential Assembly	Fiscal 2021	TBD
Indian OEM of Electric 2Ws- Motorcycles ₃	Program J	India	PMSM Motor and Controller	Fiscal 2021	TBD
Global OEM of EVs ₂	Program B4	North America	Differential Assembly	Fiscal 2021	2021

Source : RHP

OBJECTS OF ISSUE

Fresh Issue

1. Repayment and pre-payment of identified borrowings in full availed by company; and
2. General corporate purposes.



RISKS

Business Concentration from top 10 customers

Company derive a significant portion of its revenue from its top ten customers. For Fiscal Years 2019, 2020 and 2021, income from sale of goods to its top ten customers contributed to 79.0%, 80.8% and 79.6% of which, income from sale of goods to top three customers accounted to 42.0% , 44.9% and 45.4% of company’s total income from sale of goods for Fiscal Years 2019, 2020 and 2021, respectively. Further, two of company’s largest customers that together accounted for approximately 41.8% (₹5,711.14 million), 43.5% (₹5,139.33 million) and 32.3% (₹4,819.48 million) of company’s total income from sale of goods for Fiscal Years 2019, 2020 and 2021, form part of a single global automotive group.

INDUSTRY OVERVIEW

Key trends and growth drivers for Indian EV Two-Wheelers Industry

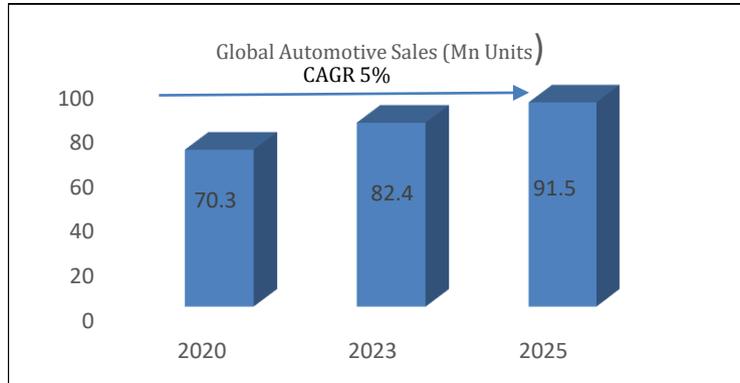
The Government of India, through various ministries, has formulated policies for the development of the EV sector in India. The Ministry of Power has revised guidelines for the distribution and sale of power. The following table lists some of the policies and their expected outcomes:

Policy	Policy details	Expected outcome
Reduction in the GST rate for EVs and chargers	-From 12% to 5% for EVs, and 18% to 5% for chargers, effective from August 1, 2019	-EV acquisition cost came down. Fast-charging infrastructure cost also reduced
Union Budget 2019-20	-Income tax deduction of Rs. 0.15 million on EV loans	-TCO decreased, especially for salaried professionals
Warranty condition for eligibility of vehicle under FAME II (May 15, 2019)	-Warranty condition revised to three years subject to 20,000 km; earlier warranty on vehicles was provided for one year only	-Customer perception of low quality of EVs will change
FAME II subsidy (March 22, 2019) valid till FY22	-1 million e2W to be given subsidy at Rs. 10,000 / kwh or 20% of ex-factory price (limited to Rs. 0.15 million)	- e2W acquisition cost came down, with subsidy ranging up to 20% of ex-factory price for current models
State EV policies	-Eight states have finalised their EV policies and eight others have draft policies	-Maharashtra and Delhi are offering incentives, further decreasing acquisition cost
	-Policy entails supply and demand-side incentives	-Demand-side incentives include reduced tariff for EV charging, rebates on road tax, interest-free loans for auto component manufacturer, and cost split for skill development Supply-side incentives include interest subvention on investments made and stamp duty exemption
PMP norms (April 29, 2019)	-Increase in import duty on EV auto component parts from 10% to 15% from April 2021	-OEMs not meeting localisation norms will not be eligible for the demand incentives -Moreover, the cost of importing parts is also set to increase from April 2021, if a sustainable and cost-effective domestic alternative is not found <i>-This will increase acquisition cost of e2W</i> -Recent interactions with e2W OEM’s suggest vehicle control units, battery packs, and lithium-ion cells are still being considered for substitution
EV charging ecosystem	-16 state policies in final and draft stages offer incentives for setting up charging stations - As per the Ministry of Power’s notification issued on December 14, 2018, resale or commercial activity in electricity has been allowed for utilities/ service providers providing public charging infrastructure -OMC (Oil marketing companies) retail pumps will be given priority for installation of public EV charging stations -Nine cities with a population of 4 million and above are the focus of phase I of the EV charging policy -There must be at least one charging station in a grid of 3 km x 3 km in cities	-Under FAME I, the government had sanctioned 520 chargers -Under FAME II, the government has sanctioned 2,636 charging stations across 62 cities -Fast and accessible charging will help reduce range anxiety and drive faster adoption of e2W



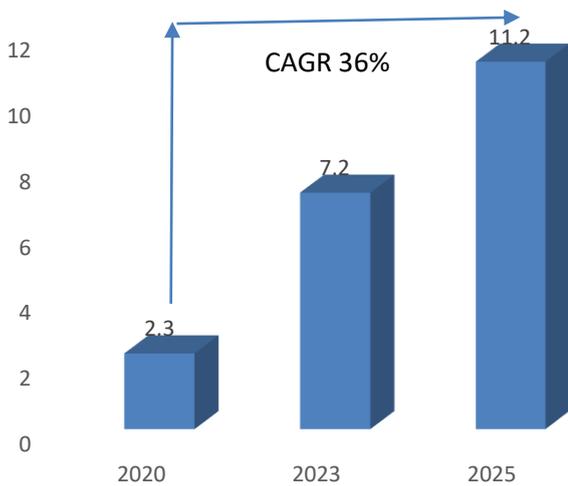
INDUSTRY OVERVIEW

Global EV and Mild Hybrid Sales Expected to Rise 5x by 2025

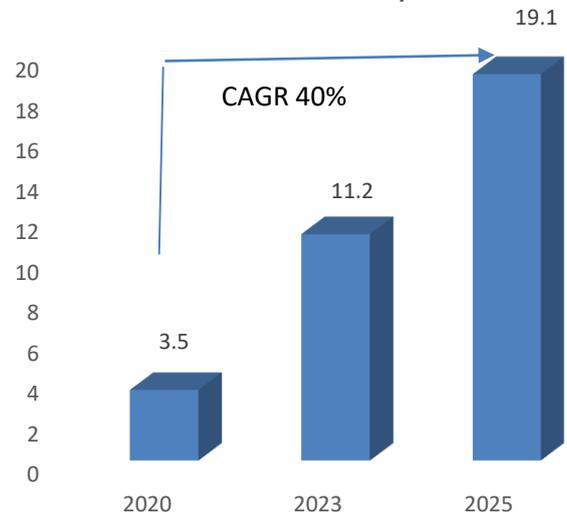


Source:RHP

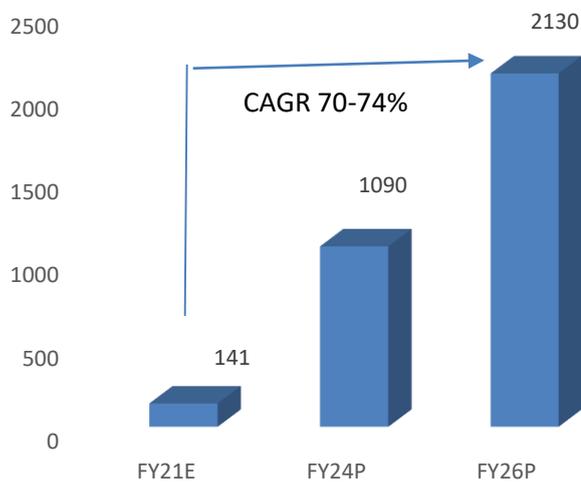
Global Battery EV



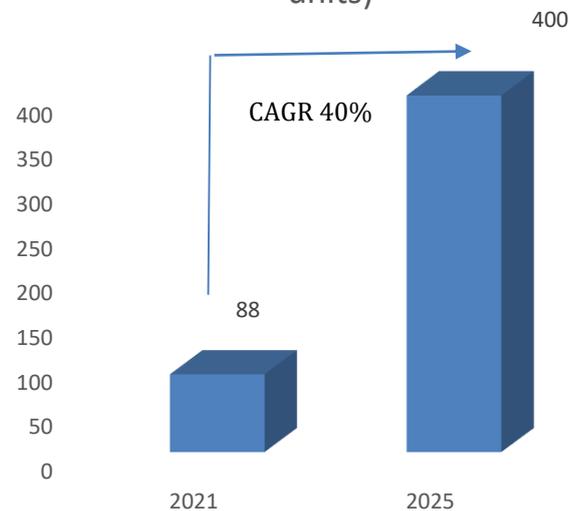
Global Mild Hybrid



India 2w EV Outlook (in '000 units)



India 3w EV Outlook (in '000 units)





Balance Sheet	FY21	FY20	FY19
EQUITYANDLIABILITIES			
Shareholders' Funds			
Share Capital	5279.80	471.54	277.18
Instruments entirely equity in nature	--	5.94	---
Reserves & Surplus	7309.21	11301.93	1460.59
Non Controlling interest	---	---	24.23
Total (A)	13039.01	11779.41	1762.00
Non-Current Liabilities			
Long Term Borrowings	1907.01	1768.22	733.07
Deferred Tax Liabilities (Net)	1260.22	1076.71	110.55
Other Non Current Liabilities	808.17	600.35	181.9
Total (B)	3975.4	3445.28	1025.52
Current Liabilities			
Short Term Borrowings	1144.99	846.09	389.1
Trade Payables	2241.09	1162.25	692.21
Other Current Liabilities	1275.12	1222.73	1173.14
Short Term Provisions	72.69	51.06	15.76
Total (C)	4733.89	3282.13	2270.21
Liabilities for disposal group classified as held for sale			11267.84
Total (A+B+C)	21748.3	18506.82	16325.57
ASSETS			
Non-Current Assets			
Property, Plant & Equipment	3449.02	2845.07	1783.52
Rights of use assets	1592.65	1419.41	405.13
Capital WIP	821.36	581.37	131.67
Goodwill on consolidation	1758.09	1758.09	
Other Intangible Assets	5366.21	4629.18	723.91
Intangible Assets under development	10.76	315	
Non-Current Investments		19	
Other financial assets	57.77	51.66	61.25
Income Tax Assets (Net)	186.74	291.42	11.24
Other Non-Current Assets	296.23	278.49	84.19
Total (A)	13538.83	12188.69	3200.91
Current Assets			
Trade Receivables	4169.87	2336.28	1520.98
Cash and Cash equivalents	249.48	1049.85	1.94
Current Investments	177.92	628.38	286.38
Short-Term Loans and Advances	15.07	4.92	0.19
Inventories	3055.57	1962.36	677.84
Other Current Assets	541.56	336.34	130.4
Total (B)	8209.47	6318.13	2617.73
Assets of disposal group classified as held for sale			10506.93
Total (A+B)	21748.3	18506.82	16325.57



(Rs in Mn)

P&L	FY21	FY20	FY19
Total Revenue (A)	15663.00	10379.82	6992.20
Total Expenditure (B)	11252.84	7957.05	4992.35
EBIDTA	4410.16	2422.77	1999.85
EBIDTA Margin	28.16	23.34	28.60
Other Income	23.41	57.83	32.81
Depreciation	969.4	671.2	309.57
EBIT	3464.17	1809.4	1723.09
Interest	325.15	259.75	177.63
PBT	3139.02	1549.65	1545.46
Extraordinary Item	139.06	-2320.53	0
PBT	2999.96	3870.18	1545.46
Sh of Profit in Associate	0	0	2.17
PBT	2999.96	3870.18	1547.63
Tax	848.31	266.75	546.49
PAT	2151.65	3603.43	1001.14
NPM	13.74	34.72	14.32
ROE %	16.50	30.59	57.61
EPS	3.76	76.42	36.12
BV	22.76	249.81	62.69



(Rs in Mn)

Cash Flow Statement	FY21	FY20	FY19
(A) Cash Flow from operating Activities:	1427.26	2533.1	1951.60
B) Cash Flow From Investing activities:	(1560.64)	(9542.10)	2041.47
C) Cash Flow From Financing Activities:	(666.99)	7668.24	(3461.23)
Net increase/(Decrease) in cash & cash equivalents(A+B+C)	(800.37)	659.55	126.29
Cash equivalents at the beginning of the year	1049.85	390.30	264.01
Cash equivalents at the end of the year	249.48	1049.85	390.30

PEERS ANALYSIS

Following is peer group analysis:

Company Name	Total Revenue (Mn)	EPS	NAV	RONW %
Motherson Sumi Systems Ltd	601954	3.29	52.52	9.5%
Sundaram Clayton Ltd	202987	159.98	2304.91	12.7%
Varroc Engineering	111219	0.01	224.72	0.1%
Bosch Ltd	97162	163.40	3237.13	4.9%
Bharat Forge Ltd	80558	7.51	112.80	6.7%
Mahindra CIE Automotive	60501	2.80	129.49	2.2%
Endurance Technologies	65740	36.95	253.24	14.6%
Minda Industries Ltd	54651	5.91	80.03	8.9%
Sundaram Fasteners Ltd	36443	17.1	112.23	15.4%
WABCO India Ltd	18635	54.73	1052.53	5.2%
Sona BLW Precision	15663	3.75	22.75	16.5%

(Source RHP)



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