

**Issue Details**

Listing	BSE & NSE
Open Date	14 June 2021
Close Date	16 June 2021
Price Band	Rs.285-291
Market Lot	51 shares
Minimum Lot	1 Lot

Sona BLW Precision Forgings Ltd (SBPF) is one of India's leading automotive technology company involved in 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 segment.

**Issue Structure**

Offer for sale	~94.6%
Fresh Issue	~5.4%
Issue Size	Rs.5,550 cr
Total shares in cr	19.07
QIB share (%)	≥ 75%
Non Inst share (%)	≤ 15%
Retail share (%)	≤ 10%

SBPF is among the top ten players globally in the differential bevel gear market on the basis of overall volumes of differential bevel gears supplied to PVs, CVs and tractors. It is also amongst the top ten global starter motor suppliers based on exposure to the PV segment and market share in CY 2020, according to the Ricardo Report.

As per the Ricardo report, in CY20 the global market share across products stands at ~5.0% for differential bevel gears, 3.0% for starter motors and 8.7% for BEV differential assemblies.

SBPF has nine manufacturing and assembly facilities across India, China, Mexico and USA. Six of these facilities are located 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.

We expect overall revenues / EBITDA / PAT to grow at a CAGR of 42.5% / 45.6% / 56.4% to Rs.4,530.9 cr / Rs.1,362.4 cr / Rs.823.4 cr, respectively, by FY24. EBITDA and net margins are expected to improve by 190 bps and 440 bps to 30.1% and 18.2%, respectively, over the same period. Consequently, return ratios RoE and RoIC are also expected to improve by 1,300 bps and 1,600 bps to 29.5% and 36.0%, respectively by FY24.

**Shareholding Pattern**

	Pre (%)	Post(%)
Promoters	100.0	67.3
Public	0.0	32.7

**Key Financials (in ₹ crores)**

	Sales	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS ₹	BV ₹	RoE (%)	RoCE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)
<b>FY20</b>	1,220.1	325.4	221.7	26.7	18.2	3.8	20.2	18.8	15.6	76.6	14.4	52.8
<b>FY21</b>	1,566.3	441.0	215.2	28.2	13.7	3.7	22.4	16.5	14.1	78.9	13.0	39.4
<b>FY22E</b>	2,349.5	658.1	341.6	28.0	14.5	5.9	31.8	18.4	14.5	49.7	9.2	26.6
<b>FY23E</b>	3,406.7	996.0	575.4	29.2	16.9	9.9	38.5	25.6	20.1	29.5	7.6	17.6
<b>FY24E</b>	4,530.9	1,362.4	823.4	30.1	18.2	14.1	47.8	29.5	25.6	20.6	6.1	12.7

**Sona Comstar Product offering**

Products	Our Product Offerings Across Vehicle and Powertrain Segments				
	Passenger Vehicles	Commercial Vehicles	Off-Highway Vehicles	Three-Wheelers	Two-Wheelers
Differential Assembly 	BEV & Hybrid	BEV	BEV	BEV	NA
	ICE	ICE	ICE	ICE	
Differential Gears 	BEV & Hybrid	BEV	BEV	BEV	NA
	ICE	ICE	ICE	ICE	
Starter Motors (Micro-hybrid and Conventional) 	Hybrid	Hybrid	NA	NA	NA
	ICE	ICE	No presence	No presence	No presence
BSG 	Hybrid	Hybrid	NA	No presence	No presence
EV Traction Motors (BLDC & PMSM) and Motor Control Units 	BEV & Hybrid	No presence	No presence	BEV	BEV

Source: Company, Ventura Research

### ❖ Key investment highlights

- **High industry growth rate for Battery Electric Vehicle (BEV) augurs well for SBPF**

According to the Ricardo report, the BEV segment is expected to grow at a CAGR of ~ 36% to 11.2 million units by CY25 from the current 2.3 million units. This is a critical growth factor for SBPF as the company supplies

- EV differential assemblies
- Differential gears,
- BSG systems
- EV traction motors

into these markets. It is to be noted that SBPF derived 13.8% of its income from sale of goods to BEV market in FY21.

- **Demand for electric 2W to drive overall EV growth**

As per CRISIL, electric 2Ws are expected to grow at a CAGR of 72-74% over the period FY21-26 while the electric 3W segment is expected to grow at a CAGR of ~46% to reach 4 lakh units by CY25.

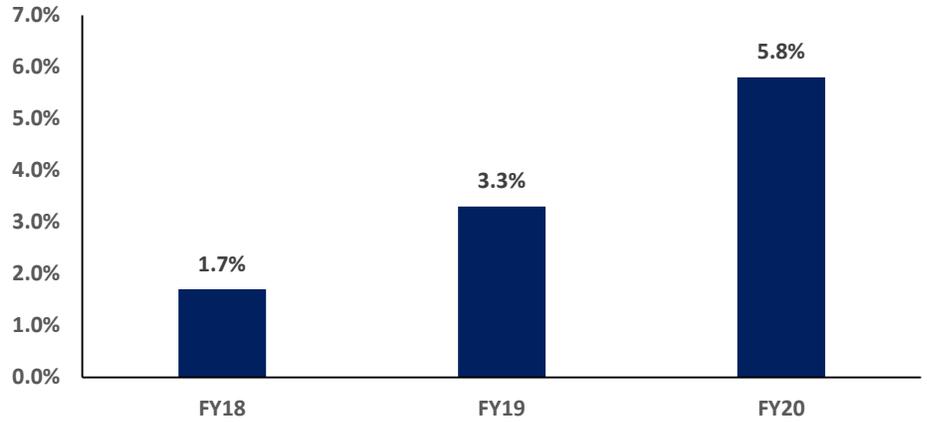
It is to be noted that SBPF supplies e-axles, BLDC motors and motor control units for use in the electric 2Ws and 3Ws segments.

- **Strong R&D capabilities in both hardware and software development have pivoted SBPF to the top of the league among peers**

SBPF has developed strong in-house capabilities to deliver evolving green technologies for future mobility. It incurred an aggregate spend of Rs 156.4 crores on R&D during FY2019-21.

It is to be noted that the share of R&D expense as a % of revenue has been slowly increasing as highlighted in the graph below.

### R&D expense as a % of total revenue

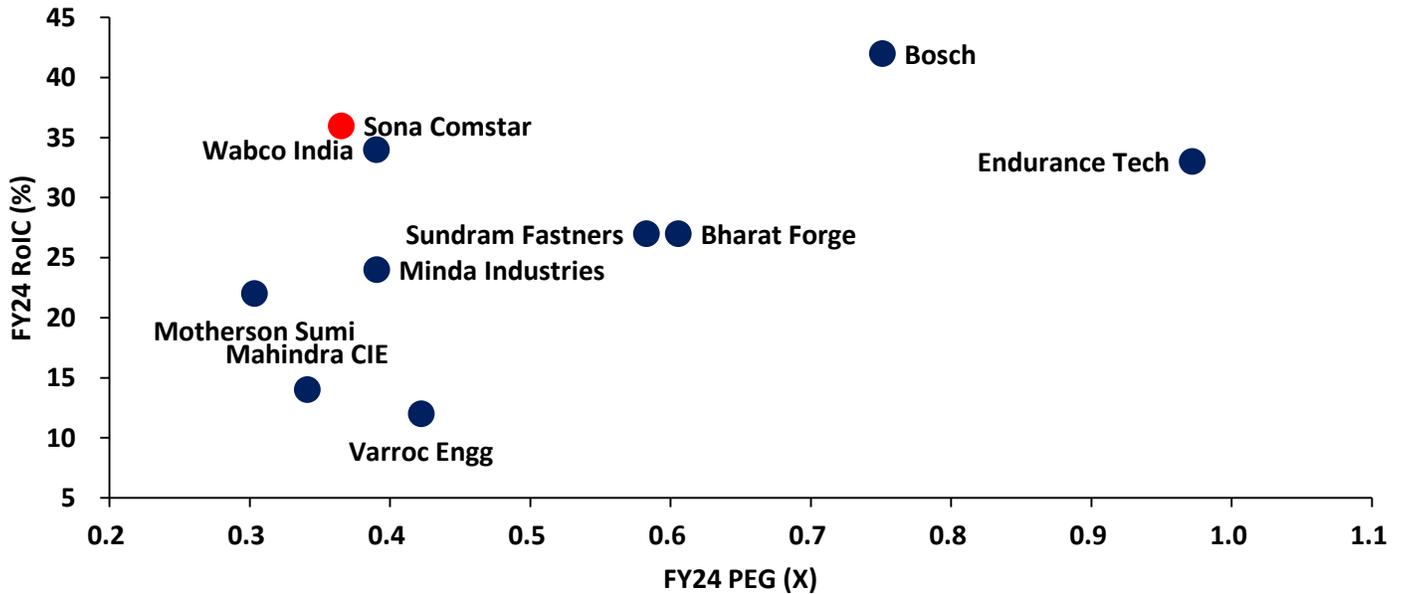


Source: Company, Ventura Research

### ❖ Valuation

At the higher price band of Rs 291 per share, SBPF is valued at 20.6x FY24 net earnings. We recommend a **SUBSCRIBE** for long term investing.

### Sona Comstar – Valuations look reasonable as compared to peers



Source: Bloomberg & Ventura Research

**❖ Key risk and concern areas****• Automotive industry has been cyclical in nature historically**

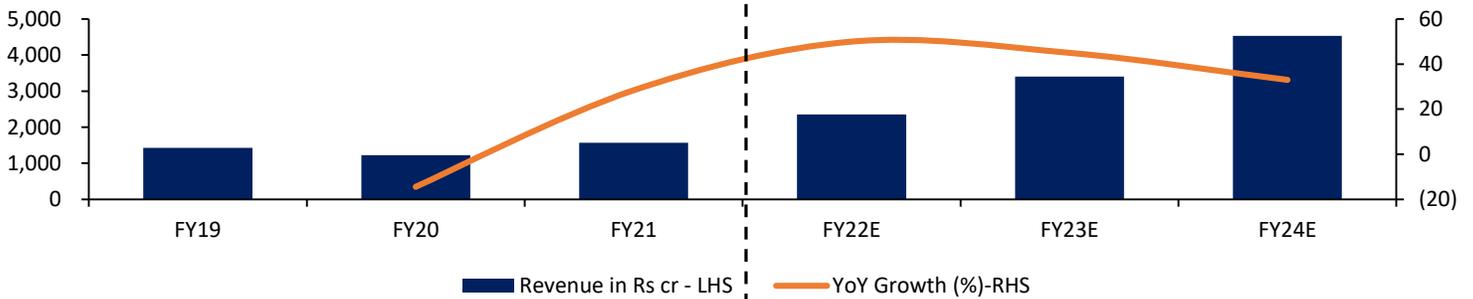
SBPF operations are cyclical in nature as its sales are directly dependent on the level of automotive production globally. Further, the sales are affected by inventory levels of automotive manufacturers, which has been characterized historically by significant periodic fluctuations.

**• SBPF derives significant % of revenues from its top 10 customers**

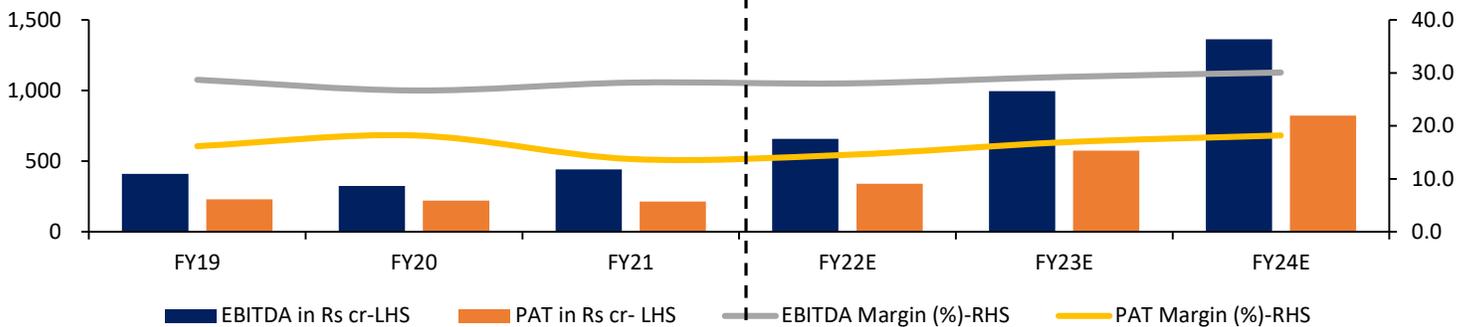
Revenues from top 10 customers constituted 79/80.8/79.6% while top 3 customers constituted 42/44.9/45.4% of total revenues of SBPF for FY19/20/21 and hence loss of any single customer can significantly impact the financials of the company.

## SBPF story in charts

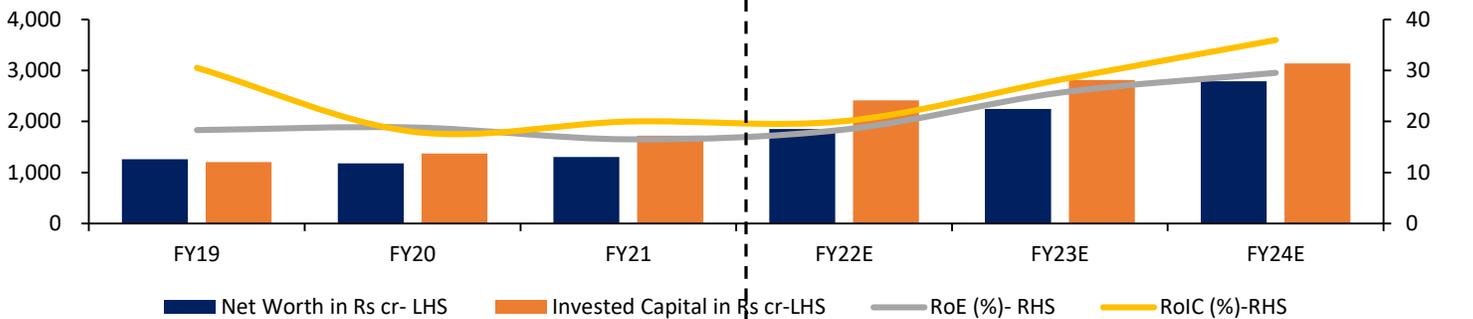
Revenues to grow at 42.5% CAGR over FY21-24E



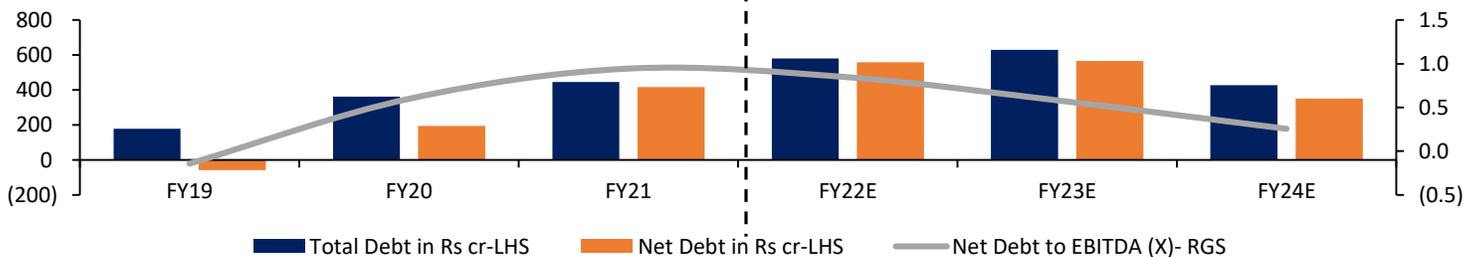
EBITDA/PAT to grow at 45.6/56.4% over FY21-24E



Return ratios are expected to jump up as margins improve



Debt is expected to come down significantly



Source: Company Reports and Ventura Research

## Management Team

Key Person	Designation	Details
<b>Mr Sunjay Kapur</b>	Chairman & Non Executive Director	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 MD of Sona Koyo Steering Systems Ltd (now JTKET India Ltd).
<b>Mr Vivek Vikram Singh</b>	MD & Group CEO	He holds a bachelor's degree in technology (computer science and engineering) from HBTI, Kanpur and a post graduate diploma in management from the IIM, Ahmedabad. He has over 15 years of experience, including 6 years of experience in the automotive industry. He joined the company on July 1, 2016.
<b>Mr Rohit Nanda</b>	Group CFO	He is a qualified CA and has significant experience in diverse industries including steel, engineering, pharma, chemical and industrial goods. Prior to joining the company, he was associated with Usha Martin Ltd, MTAR Technologies Ltd, Jindal Stainless Ltd, SRF Ltd and Ranbaxy Laboratories Ltd. He joined our Company on April 11, 2019.
<b>Mr Kiran Manohar Deshmukh</b>	CTO	He holds a bachelor's degree of technology in metallurgical engineering from the IIT, Bombay. He has significant experience in automotive components manufacturing and has worked in the areas of, among others, manufacturing, process control and design. He joined the company on July 1, 2019.

Source: Company Reports

### Issue Structure and Offer Details

The proposed issue size of SBPF's IPO is ~Rs.5,550 cr consisting of Rs 300 cr as fresh issue while the rest is offer for sale by Singapore VII Topco III Pte. Ltd. The price band for the issue is in the range of Rs.285-291 and the bid lot is 51 shares and multiples thereof.

Issue Structure at upper price band		
Category	No. of shares offered	No of shares Offered
QIB	At least 14,30,41,238	At least 75% of public issue
Non-Institutional Bidders	Not more than 2,86,08,247	Not more than 15% of public issue
Retail	Not more than 1,90,72,164	Not more than 10% of public issue

\* No of shares based on higher price band of Rs.291

Source: Company Reports & SEBI

Shareholding Pattern		
Category	Pre-issue	Post-issue
Promoters	100.0%	67.3%
Public	0.0%	32.7%

Source: Company Reports and SEBI

**Peer comparison**

Particulars	Revenue	EBITDA	Net Profit	EBITDA Margin (%)	Net Margin (%)	EPS ₹	BVPS ₹	RoE (%)	RoIC (%)	P/E	P/B	EV/EBITDA
<b>Sona Comstar Ltd (CMP: Rs.291 Mkt Cap: Rs.16974 cr)</b>												
FY19	1,428	410	231	28.7	16.2	4.0	21.6	18.3	30.5	73.6	13.5	41.3
FY20	1,220	325	222	26.7	18.2	3.8	20.2	18.8	18.0	76.6	14.4	52.8
FY21	1,566	441	215	28.2	13.7	3.7	22.4	16.5	20.0	78.9	13.0	39.4
FY22	2,349	658	341	28.0	14.5	5.9	31.8	18.4	20.1	49.7	9.2	26.6
FY23	3,407	996	575	29.2	16.9	9.9	38.5	25.6	28.2	29.5	7.6	17.6
<b>Motherson Sumi Systems Ltd. (CMP: Rs.246.8 Mkt Cap: Rs.77922 cr)</b>												
FY19	63,158	5,348	1,614	8.5	2.6	5.1	34.7	14.7	17.4	48.3	7.1	16.1
FY20	63,071	5,201	1,172	8.2	1.9	3.7	34.7	10.7	12.4	66.5	7.1	16.6
FY21	59,459	4,758	1,008	8.0	1.7	3.2	37.5	8.5	10.6	77.3	6.6	17.5
FY22	72,155	7,806	2,645	10.8	3.7	8.4	43.3	19.4	29.7	29.5	5.7	10.2
FY23	81,039	9,432	3,453	11.6	4.3	10.9	50.9	21.5	41.6	22.6	4.8	8.1
<b>Varroc Engineering Ltd. (CMP: Rs.379.6 Mkt Cap: Rs.5799 cr)</b>												
FY19	12,036	1,059	482	8.8	4.0	31.5	227.5	13.9	10.0	12.0	1.7	6.9
FY20	11,122	821	0	7.4	0.0	0.0	227.5	0.0	1.6	3.6	1.7	9.8
FY21	11,255	437	(567)	3.9	(5.0)	(37.1)	208.4	(17.8)	(7.5)	(10.2)	1.8	18.4
FY22	13,764	1,076	123	7.8	0.9	8.0	215.6	3.7	3.4	47.3	1.8	7.3
FY23	15,658	1,506	436	9.6	2.8	28.6	240.1	11.9	10.5	13.3	1.6	4.7
<b>Bosch Ltd. (CMP: Rs.15789.9 Mkt Cap: Rs.46570 cr)</b>												
FY19	12,046	2,200	1,549	18.3	12.9	525.3	3,091.4	17.0	23.5	30.1	5.1	20.5
FY20	9,515	1,576	650	16.6	6.8	220.2	3,091.4	7.1	16.7	71.7	5.1	28.0
FY21	9,629	997	818	10.4	8.5	277.2	3,255.4	8.5	16.5	57.0	4.9	41.0
FY22	12,106	1,645	1,365	13.6	11.3	462.8	3,626.6	12.8	32.4	34.1	4.4	24.3
FY23	13,692	2,039	1,681	14.9	12.3	570.0	4,017.1	14.2	42.2	27.7	3.9	19.0
<b>Bharat Forge Ltd. (CMP: Rs.758.8 Mkt Cap: Rs.35329 cr)</b>												
FY19	10,146	2,056	1,032	20.3	10.2	22.2	115.5	19.2	18.3	34.2	6.6	18.7
FY20	8,056	1,115	350	13.8	4.3	7.5	115.5	6.5	7.0	101.0	6.6	34.2
FY21	6,274	760	181	12.1	2.9	3.9	113.1	3.4	2.9	195.1	6.7	48.9
FY22	8,296	1,600	768	19.3	9.3	16.5	124.0	13.3	13.3	46.0	6.1	23.1
FY23	10,121	2,192	1,198	21.7	11.8	25.7	143.3	18.0	20.5	29.5	5.3	16.6

Source: Company Reports &amp; Ventura Research

## Financial Projections

Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E	Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E
<b>Income Statement</b>						<b>Per share data &amp; Yield</b>					
Revenue	1,220.1	1,566.3	2,349.5	3,406.7	4,530.9	Adjusted EPS (Rs)	3.8	3.7	5.9	9.9	14.1
YoY Growth (%)	(14.5)	28.4	50.0	45.0	33.0	Adjusted CEPS (Rs)	5.1	5.4	8.8	13.4	18.1
Raw Material Cost	513.9	645.3	986.8	1,437.6	1,921.1	Adjusted BVPS (Rs)	20.2	22.4	31.8	38.5	47.8
YoY Growth (%)	(11.2)	25.6	52.9	45.7	33.6	CFO per share (Rs)	4.3	2.4	4.0	7.3	12.8
Employee Cost	122.2	147.4	234.9	324.4	411.9	CFO Yield (%)	1.5	0.8	1.4	2.5	4.4
YoY Growth (%)	(1.3)	20.6	59.3	38.1	27.0	FCF per share (Rs)	(12.9)	(0.9)	(6.9)	3.1	8.6
Other Expenses	258.6	332.5	469.6	648.6	835.5	FCF Yield (%)	(4.4)	(0.3)	(2.4)	1.1	2.9
YoY Growth (%)	(18.1)	28.6	41.2	38.1	28.8	<b>Solvency Ratio (X)</b>					
EBITDA	325.4	441.0	658.1	996.0	1,362.4	Total Debt to Equity	0.3	0.3	0.3	0.3	0.2
YoY Growth (%)	(20.6)	35.5	49.2	51.3	36.8	Net Debt to Equity	0.2	0.3	0.3	0.3	0.1
Margins (%)	26.7	28.2	28.0	29.2	30.1	Net Debt to EBITDA	0.6	0.9	0.8	0.6	0.3
Depreciation & Amortization	78.2	96.9	174.2	203.9	233.6	Interest Coverage Ratio	9.2	10.6	25.2	112.7	164.1
EBIT	247.2	344.1	483.9	792.1	1,128.8	<b>Return Ratios (%)</b>					
YoY Growth (%)	(32.6)	39.2	40.7	63.7	42.5	Return on Equity	18.8	16.5	18.4	25.6	29.5
Margins (%)	20.3	22.0	20.6	23.3	24.9	Return on Capital Employed	15.6	14.1	14.5	20.1	25.6
Other Income	7.6	2.3	2.8	3.1	6.0	Return on Invested Capital	18.0	20.0	20.1	28.2	36.0
Finance Cost	26.9	32.5	19.2	7.0	6.9	<b>Working Capital</b>					
Exceptional Item	0.0	13.9	0.0	0.0	0.0	Inventory Days	59	71	70	67	65
PBT	227.9	300.0	467.5	788.2	1,127.9	Receivable Days	70	97	95	90	85
YoY Growth (%)	(35.8)	31.6	55.8	68.6	43.1	Payable Days	35	52	45	40	40
Margins (%)	18.7	19.2	19.9	23.1	24.9	Net Working Capital Days	94	116	120	117	110
Reported Tax	6.2	84.8	126.2	212.8	304.5	Net Working Capital to Sales (%)	25.7	31.8	32.9	32.1	30.1
Tax Rate	2.7	28.3	27.0	27.0	27.0	<b>Valuation (X)</b>					
PAT	221.7	215.2	341.3	575.4	823.4	P/E Ratio	76.6	78.9	49.7	29.5	20.6
YoY Growth (%)	(3.9)	(3.0)	58.6	68.6	43.1	P/BV Ratio	14.4	13.0	9.2	7.6	6.1
Margins (%)	18.2	13.7	14.5	16.9	18.2	EV/EBITDA	52.8	39.4	26.6	17.6	12.7
<b>Balance Sheet</b>						EV/Sales	14.1	11.1	7.5	5.1	3.8
Equity Share Capital	47.2	573.0	583.3	583.3	583.3	<b>Cash Flow Statement</b>					
Total Reserves	1,130.8	730.9	1,269.8	1,661.1	2,204.5	Profit Before Tax	227.9	300.0	467.5	788.2	1,127.9
Shareholders' Fund	1,177.9	1,303.9	1,853.1	2,244.4	2,787.8	Adjustments	7.4	112.4	165.0	169.5	195.6
Non Controlling Interest	0.0	0.0	0.0	0.0	0.0	Change in Working Capital	24.2	(184.8)	(274.0)	(319.6)	(273.5)
LT Borrowings	176.8	190.7	200.0	200.0	200.0	Less: Tax Paid	(6.2)	(84.8)	(126.2)	(212.8)	(304.5)
LT Lease Liabilities	53.2	72.0	70.5	69.0	67.5	<b>Cash Flow from Operations</b>	253.3	142.7	232.3	425.3	745.5
Other LT Financial Liabilities	0.1	0.1	0.2	0.3	0.4	Net Capital Expenditure	(1,033.7)	(218.0)	(650.0)	(250.0)	(250.0)
LT Provisions	6.7	8.7	13.8	19.1	24.2	Change in Investments	79.5	62.0	88.4	7.1	7.5
Deferred Tax Liabilities	107.7	126.0	126.0	126.0	126.0	<b>Cash Flow from Investing</b>	(954.2)	(156.1)	(561.6)	(242.9)	(242.5)
<b>Total Liabilities</b>	<b>1,522.5</b>	<b>1,701.4</b>	<b>2,263.6</b>	<b>2,658.7</b>	<b>3,205.9</b>	Proceeds from Issue of Equity	847.7	0.0	310.3	0.0	0.0
Gross Block	372.8	465.6	1,115.6	1,365.6	1,615.6	Proceeds from Issue of CC Pref Shar	22.9	0.0	0.0	0.0	0.0
Less: Accumulated Depreciation	88.3	120.7	253.2	415.5	607.4	Buyback of Shares (incl tax)	(99.8)	0.0	0.0	0.0	0.0
<b>Net Block</b>	<b>284.5</b>	<b>344.9</b>	<b>862.4</b>	<b>950.1</b>	<b>1,008.1</b>	Repayment of Lease Liabilities	(5.7)	(9.1)	(8.9)	(8.7)	(8.6)
Capital WIP	58.1	82.1	0.0	0.0	0.0	Dividend Paid (incl tax)	(116.6)	(90.4)	(102.4)	(184.1)	(279.9)
Right of use assets	141.9	159.3	152.1	144.9	137.7	Change in Borrowing	142.6	60.3	137.4	50.0	(200.0)
Goodwill on consolidation	175.8	175.8	175.8	175.8	175.8	Less: Finance Cost	(22.6)	(25.2)	(12.0)	0.0	0.0
Other Intangible Assets	462.9	536.6	502.2	467.7	433.3	Change in Other Liabilities	(1.7)	(2.2)	0.0	0.0	0.0
Intangible Assets under developme	31.5	1.1	0.0	0.0	0.0	<b>Cash Flow from Financing</b>	<b>766.8</b>	<b>(66.7)</b>	<b>324.4</b>	<b>(142.9)</b>	<b>(488.5)</b>
Non Current Investments	1.9	0.0	0.0	0.0	0.0	<b>Net Cash Flow</b>	<b>66.0</b>	<b>(80.0)</b>	<b>(4.9)</b>	<b>39.5</b>	<b>14.5</b>
LT Loans & Advances	5.1	5.8	8.7	12.6	16.7	Opening Balance of Cash	39.0	105.0	24.9	20.1	59.6
Other LT Financial Assets	0.1	0.0	0.0	0.0	0.0	<b>Closing Balance of Cash</b>	<b>105.0</b>	<b>24.9</b>	<b>20.1</b>	<b>59.6</b>	<b>74.1</b>
Income Tax Assets	29.1	18.7	28.0	40.6	54.0						
Other Non Current Assets	27.8	29.6	44.4	64.4	85.7						
Net Current Assets	303.6	347.6	490.1	802.6	1,294.5						
<b>Total Assets</b>	<b>1,522.5</b>	<b>1,701.4</b>	<b>2,263.6</b>	<b>2,658.7</b>	<b>3,205.9</b>						

Source: Company Reports & Ventura Research

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