

# Sona BLW Precision Forging



## Focused approach yields results

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# Sona BLW Precision Forging: Focused approach yields results

Summary

03

Story in charts

06

Electrical disruption gains momentum

08

SONACOMS offers clean play on global EVs

14

Multiple drivers to grow faster than industry

20

R&D critical for a technology-focused company

26

Strong growth to be driven by ramp-up in BEV products

29

Valuation and view

31

Management profile

33

Bulls and Bear cases

34

SWOT

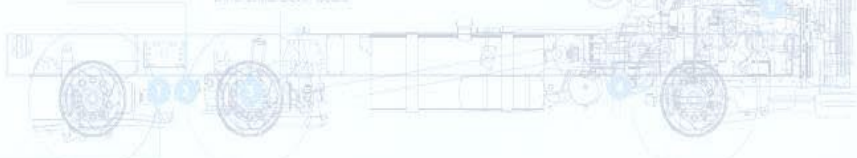
35

Key Risks

36

Financials and valuation

37



# Sona BLW Precision Forging

BSE Sensex  
56,247

S&P CNX  
16,794

CMP: INR636

TP: INR625 (-2%)

Neutral



**SONA COMSTAR**

Bloomberg	SONACOMS IN
Equity Shares (m)	584
M.Cap.(INRb)/(USD\$b)	371.6 / 4.9
52-Week Range (INR)	839 / 295
1, 6, 12 Rel. Per (%)	-1/9/-
12M Avg Val (INR M)	1955

## Financial Snapshot (INR b)

Y/E Mar	2021	2022E	2023E
Sales	15.7	21.2	28.6
EBITDA (%)	28.2	26.8	27.8
Adj. PAT	2.3	3.2	4.8
EPS (INR)	3.9	5.5	8.2
EPS Gr. (%)	-91.6	40.2	49.4
BV/Sh. (INR)	22.8	31.4	37.7

## Ratios

RoE (%)	18.1	20.5	23.8
RoCE (%)	14.6	16.4	20.0
Payout (%)	481.8	26.8	23.9

## Valuations

P/E (x)	161.9	115.5	77.3
P/BV (x)	27.9	20.2	16.9
EV/EBITDA (x)	83.3	65.2	46.6
Div. Yield (%)	3.0	0.2	0.3
FCF Yield (%)	-57.8	37.8	27.5

## Shareholding pattern (%)

As On	Dec-21	Sep-21
Promoter	67.2	67.3
DII	16.0	16.4
FII	9.8	10.4
Others	7.1	5.9

We initiate coverage on Sona BLW Precision Forging (SONACOMS) with a Neutral rating and a TP of INR625. SONACOMS is among India's leading automotive technology companies, with a focus on the Driveline and Electricals (Motor) segments. It supplies these products to auto OEMs globally for application in both the Electrified/Non-Electrified Powertrain segments. It has recently entered in connected vehicle technology through launch of IMCM (motor controller for smart suspension system). It has nine manufacturing and assembly facilities across India, China, Mexico, and the US, of which six are located in India. From these facilities, it supplies to six of the top 10 global PV OEMs, three of the top 10 global CV OEMs, and seven of the top eight global tractor OEMs.

## Focused approach yields results

### Global scale in the EV segment to drive growth

- SONACOMS offers a clean global play on the megatrends of electrification and premiumization, resulting in a substantial increase in content.
- The company's unique positioning is driven by a) a sizeable and increasing presence in EVs, b) global scale and presence, c) an expanding customer base, and d) a strong financial profile.
- Its focus on R&D is driven by the company's aim to capitalize on the electrification opportunity from both ends of the power spectrum and eventually offer both product categories to all of the market segments.
- Furthermore, it has leveraged its R&D capabilities on electricals and software to leverage on another megatrend to develop new revenue stream by launching motor controller for smart suspension system.
- We estimate a revenue/EBITDA/PAT CAGR of 33%/35%/43% over FY21–25E and RoCE expansion to ~25.8% by FY25E (11.2pp over FY21).
- However, valuations at 77.3x/51x FY23E/FY24E consol EPS largely factor in these positives. We initiate coverage on the stock with a Neutral rating and a TP of INR625 (premised on ~50x FY24E consol. EPS).

### Electrical disruption gains momentum; premiumization to sustain

- The global Automotive industry has probably reached an inflection point for the electrification of passenger vehicles (PVs) and light vehicles (LVs), driven by tighter emission norms and support from governments worldwide.
- Based on various estimates, battery electric vehicles (BEVs) would account for 10–16% of global PV sales by CY25 and 17–35% by CY30. Other forms of electrification would also gain ground as stringent emission targets would drive the penetration of mild and full hybrids to ~33% in CY25E (from ~10% in CY20).
- Furthermore, the premiumization trend observed across segments globally as well as in India is expected to continue. SONACOMS' product portfolio of differential gears and motors is on the right side of the Auto industry evolution.

### SONACOMS offers clean play on global EVs

- SONACOMS' unique positioning is driven by a) fuel-agnostic product technology, b) a sizeable and increasing presence in EVs, c) a well-diversified global presence, and d) an expanding customer base.
- It is well-positioned to ride the EV disruption as both its product segments not only remain relevant but also benefit substantially from the content increase. It has been awarded 24 development programs for EV systems and components by 14 customers (as of Dec'21), of which the active production process has been commenced for seven programs.
- While it is a dominant player in the Indian Differential Gears market, it is seeing market share gains globally in its key product segments.
- The BEV segment already contributed ~23% to revenues in 3QFY22 (v/s 14% in FY21), and 66.4% of the order book consists of EVs. We estimate 41% of its FY24 revenues to come from the BEV segment.

### Multiple drivers to grow faster than the industry

- SONACOMS is geared for stronger growth on the back of a) a content increase in the existing portfolio; b) market share gains in North America, Europe, and China; and c) new products such as traction motors, controllers, and belt starter generators (BSGs).
- Its product portfolio benefits from EVs owing to the increased complexity of both of its products, driving almost a 2x content increase in differential assemblies.
- It further benefits from the structural premiumization trend observed across Automotive segments – PVs (SUVs, 4WD, BEV), CVs (MAV), and Tractors (higher HP) – as gear value depends on size and complexity, which is determined based on torque.
- The Starter Motor business would benefit from stronger hybridization (up to 30% higher AS). Moreover, it has orders for traction motors for electric 2Ws/3Ws from three OEMs in India (two for 2Ws and one for 3Ws) and is in talks with several other OEMs. Furthermore, it offers controllers in tandem with traction motors, thus further increasing content.
- **SONACOMS has added a new product segment in form of IMCM (motor controller for smart suspension system), thereby expanding its product portfolio beyond driveline and starter motors. This is driven by its focus on innovation by leveraging its capabilities on electrical and software to develop new revenue streams.**

### R&D focus on forward integration in high-tech intensity products

- The SONACOMS approach is to own technology to capture maximum value and offer the best products to its customers. It invests an average of 3–4% of sales in R&D (higher at ~6% in FY21).
- Its technology roadmap is focused on developing new products that enable an increase in the share of EVs, penetrate in connected vehicle segment and reduce dependence on ICE vehicles. It aims to capitalize on the electrification opportunity at both ends of the power spectrum and eventually offer both product categories to all of the market segments.
- It is among the few players that are well-placed to combine their motor and driveline capabilities to offer integrated drive units, which have three key components – differential assemblies (DAs), high-voltage traction motors, and high-voltage inverters.

### Valuation and Risks

- SONACOMS offers a unique play on the global electrification disruption, with a strong order book in hand and visibility for a sharp increase in contribution from the EV segment.
- This – along with its focus on two product segments, global scale and presence, and an expanding customer base – is testimony to its capabilities and strong positioning in its product segments.
- This translates into strong growth in revenue/EBITDA/PAT CAGR of 33%/35%/43% over FY21-25E and RoCE expansion to ~25.8% by FY25E (11.2pp over FY21).
- However, valuations at 77.3x/51x FY23E/FY24E consol EPS largely factor in these positives. The current stock price implies terminal growth of ~8% post FY30E.
- We initiate coverage with a **Neutral** rating and TP of INR625 (~50x FY24E consol. EPS).
- **Key upside risks are:** a) stronger-than-expected ramp-up in traction motors and IMCM business, and b) addition of a new fuel-agnostic product. Key downside risks are: a) inadequate scale-up of traction motors for 2W/3W can negatively impact electrical business as starter motors business will be adversely impacted by EVs, b) higher customer concentration as top-3 customers accounted for 45% of FY21 revenues and c) SONACOMS not keeping pace with the rapidly evolving EV technology.

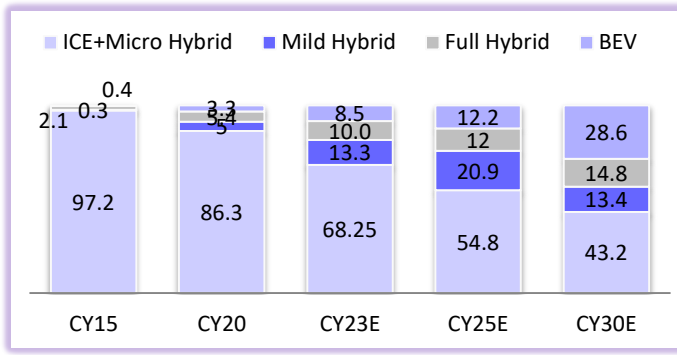
### Exhibit 1: Comparative valuations – MOFSL Auto Coverage Universe

Auto OEM's	Rating	Mcap (INR b)	CMP (INR)	TP (INR)	P/E (x)		EV/EBITDA (x)		PB (x)		FY23 Yield (%)		EPS CAGR (%) FY21-23E
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	Div	FCF	
Bajaj Auto	Neutral	1,022	3,531	3,500	19.7	17.8	15.1	13.1	3.9	3.9	4.5	3.7	8.8
Hero MotoCorp	Buy	507	2,536	3,150	19.0	15.5	10.9	8.7	3.3	3.2	5.3	6.1	4.9
TVS Motor	Neutral	293	618	625	32.4	22.7	15.9	12.2	6.0	5.0	0.9	4.3	45.4
Eicher Motors	Buy	706	2,586	3,050	39.1	24.3	28.1	18.8	5.6	4.7	1.0	4.4	44.8
Maruti Suzuki	Buy	2,511	8,312	10,300	76.1	34.0	39.2	20.7	4.7	4.4	1.4	2.2	30.7
M&M	Buy	945	791	1,125	19.8	17.4	14.0	11.6	1.2	1.1	1.3	5.1	16.1
Tata Motors	Buy	1,739	454	600	-14.2	20.1	8.1	4.4	4.0	3.4	0.0	12.7	533.9
Ashok Leyland	Buy	349	119	165	-170.9	30.4	53.2	14.8	5.3	4.9	1.7	7.7	LTP
Escorts	Neutral	227	1,852	1,800	24.3	24.1	20.2	20.2	3.3	2.4	0.4	3.2	-5.6
<b>Auto Ancillaries</b>													
Bharat Forge	Buy	316	678	965	33.2	23.6	18.6	13.9	5.2	4.4	0.9	5.4	290.0
Exide Industries	Buy	127	149	230	15.8	11.7	8.2	6.9	1.7	1.0	2.1	7.1	19.3
Amara Raja	Neutral	96	561	685	17.0	13.2	8.5	6.7	2.1	1.9	2.7	4.4	5.8
BOSCH	Neutral	464	15,748	17,650	37.7	28.1	28.2	20.0	4.3	3.9	0.8	2.0	29.2
Endurance Tech	Buy	186	1,319	1,850	39.6	27.0	19.3	14.1	4.8	4.2	0.9	2.1	16.4
Motherson Sumi	Buy	475	150	210	37.2	17.6	8.7	5.5	3.5	3.1	1.5	8.9	58.6
Mahindra CIE	Buy	74	195	300	13.6	11.1	8.0	6.2	1.4	1.3	1.5	7.4	149.1
CEAT	Buy	39	976	1,400	71.0	17.0	8.9	6.2	1.2	1.1	1.2	4.5	-29.1
Balkrishna Ind	Neutral	352	1,824	2,320	25.3	21.9	17.3	14.3	5.1	4.4	1.4	1.4	16.8
MRF	Neutral	279	65,716	66,500	41.6	27.7	12.0	9.4	2.0	1.9	0.3	-0.3	-11.2
Apollo Tyres	Buy	106	185	275	15.6	10.4	5.9	4.6	0.9	0.8	2.4	13.4	24.4
<b>Sona BLW</b>	<b>Neutral</b>	<b>364</b>	<b>636</b>	<b>625</b>	<b>115.5</b>	<b>77.3</b>	<b>66.6</b>	<b>47.6</b>	<b>20.2</b>	<b>16.9</b>	<b>0.3</b>	<b>0.2</b>	<b>44.7</b>

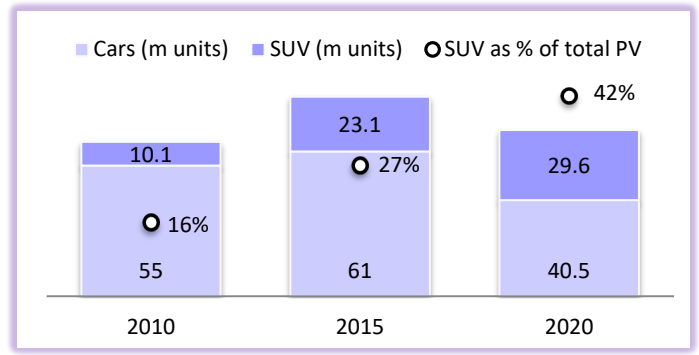
Source: MOFSL

## Story in charts

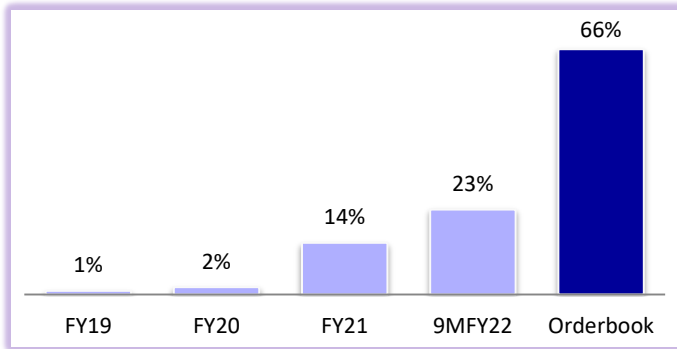
**Exhibit 2: BNEF expects BEV to have 12%/29% share in total PVs in CY25E/CY30E**



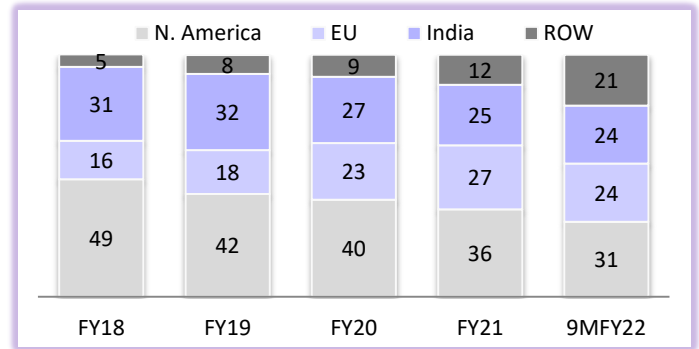
**Exhibit 3: Increasing share of SUVs in global PVs**



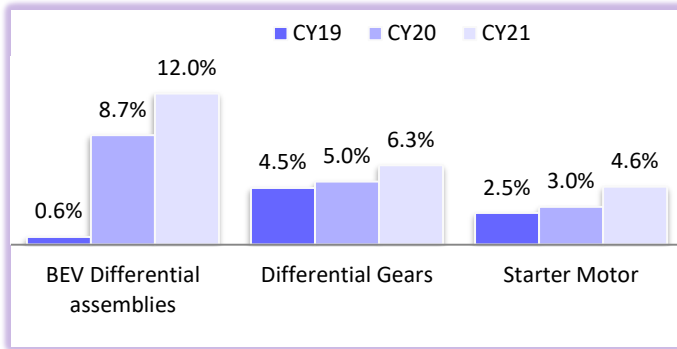
**Exhibit 4: EV contribution growing for SONACOMS**



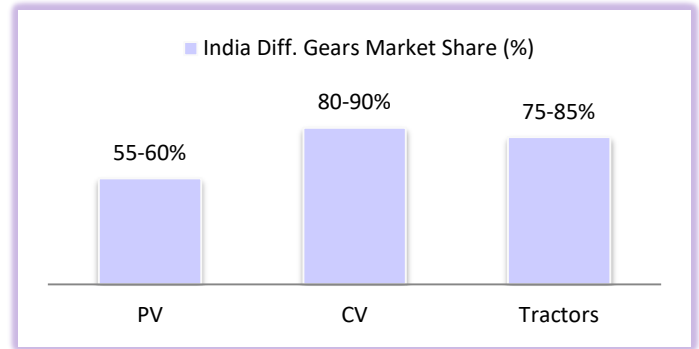
**Exhibit 5: SONACOMS enjoys well-diversified geographic mix (% of sales)**



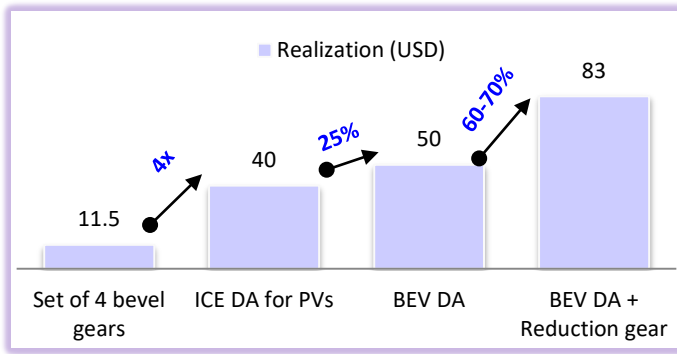
**Exhibit 6: SONACOMS gains market share in key products globally**



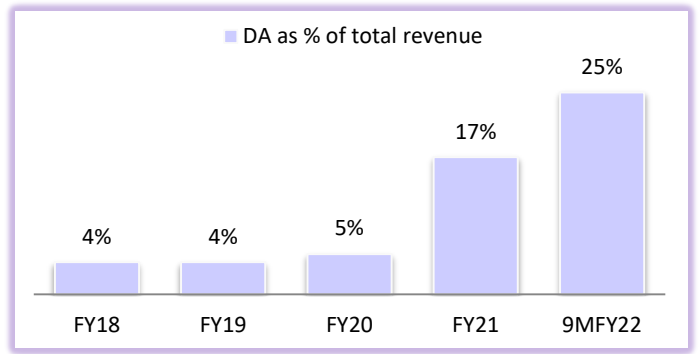
**Exhibit 7: SONACOMS leads market in India Differential Gears market**



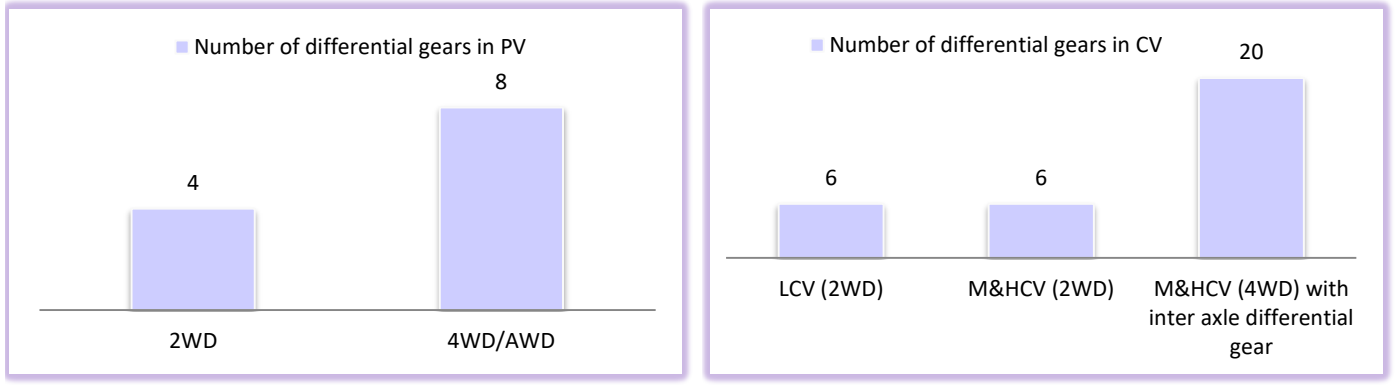
**Exhibit 8: Forward integration in BEV DAs drives substantial increase in realizations**



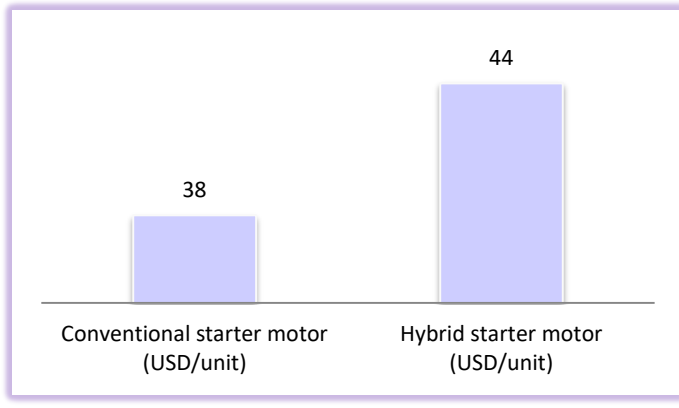
**Exhibit 9: DA turning sizeable for SONACOMS**



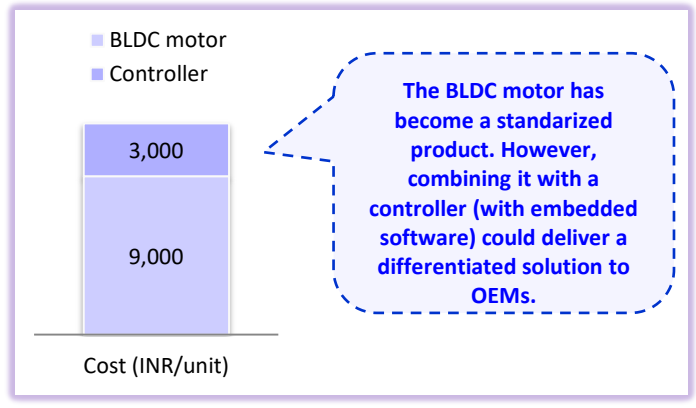
**Exhibit 10: Premiumization in SUVs, M&HCVs, and Tractors leads to higher content**



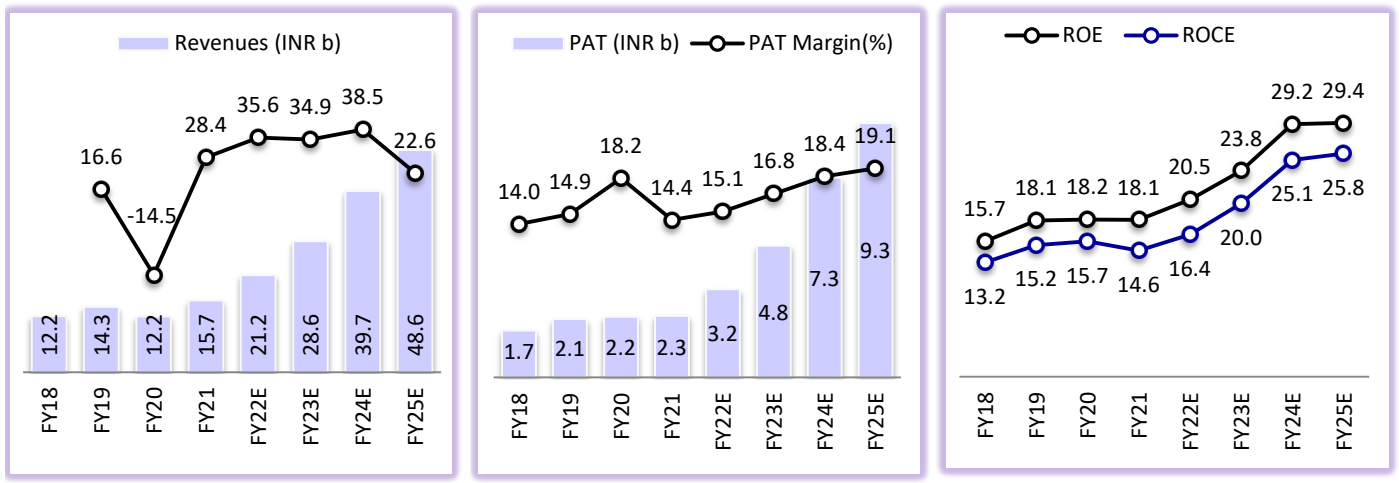
**Exhibit 11: Micro-hybrid starter motor has ~15% higher realization**



**Exhibit 12: E-2W traction motor offers high value with additional content from controller**



**Exhibit 13: Expect 33% revenue CAGR and 43% PAT CAGR over FY21–25E, driving ~11.2p improvement in RoCEs to ~25.8% by FY25**



## Electrical disruption gains momentum...

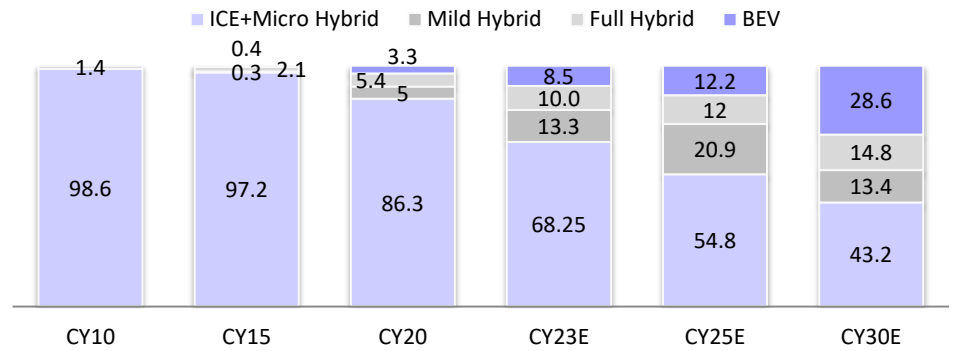
...premiumization trend also expected to sustain

- The global Automotive industry has probably reached an inflection point for the electrification of PVs and LVs, driven by tighter emission norms and support from governments worldwide. Based on various estimates, BEVs would account for 10–16% of global PV sales by CY25 and 17–35% by CY30. This implies a 25–35% CAGR for BEVs over CY20–25E and 19–27% CAGR over CY20–30E.
- Europe and China are expected to lead this disruption, driven primarily by Europe's vehicle CO2 regulations, China's fuel economy regulations, and the new energy vehicle credit system. The share of BEVs in Europe and China is expected to be 20–25% in CY25 and 35–40% in CY30.
- While BEVs would see a consistent increase in share, other forms of electrification would gain further ground, as stringent emission targets (particularly in the EU and China) would necessitate OEMs to focus on a higher degree of electrification as ICEs/micro-hybrids would be unable to meet emission targets. Hence, mild and full hybrids would see an increase in share to ~33% in CY25E (from ~10% in CY20), before declining to ~28% by CY30E, as BEVs turn more competitive.
- In the Indian context, electrification is expected to accelerate in 2Ws, 3Ws, LCVs, and city buses, driven by the various financial incentives offered by the central and state governments. We estimate EV penetration to stand at 9–10% for 2Ws and 15–20% for 3Ws by CY25E. The PV segment is expected to see more back-ended full electrification on limited incentives for personal use. However, hybridization would be the preferred route to meet stringent emission norms for small- to mid-sized PVs.
- Lastly, the premiumization trend observed across segments globally as well as in India is expected to continue. In PVs, the share of premium vehicles and SUVs (incl. 4WDs) is expected to further rise in India (SUVs accounted for 39% of domestic PVs in CY20) and globally (SUVs formed 42% of the total PV volumes in CY20). In the CV segment in India, the share of multi-axle vehicles is expected to recover from lows of 19% in FY21 (v/s 37% in FY18), driven by recovery in economic activity. In the Tractors business in India, the share of higher HP tractors is expected to rise further (>51HP at 9.5% of total v/s 6% in FY15), led by the increasing use of farm implements.
- The SONACOMS product portfolio of differential gears and motors is on the right side of the Auto industry evolution, with a substantial increase in content in EV products. It is also well-prepared for EV-specific components such as traction motors and controllers, and is in a unique position to integrate both its product lines to develop an integrated drive unit (IDU).

1a

Disruption in the EV segment is gaining momentum, driven by government support, aggressive plans for new and existing OEMs, and the evolution of the EV ecosystem. While BEVs are expected to account for 10–16% of global PV volumes by CY25, other forms of electrification would be needed to meet stricter emission norms globally. This would result in the increased penetration of mild and full hybrids. In the Indian context, the electrification of 2Ws, 3Ws, LCVs, and city buses is expected to gain momentum over the next 2–3 years.

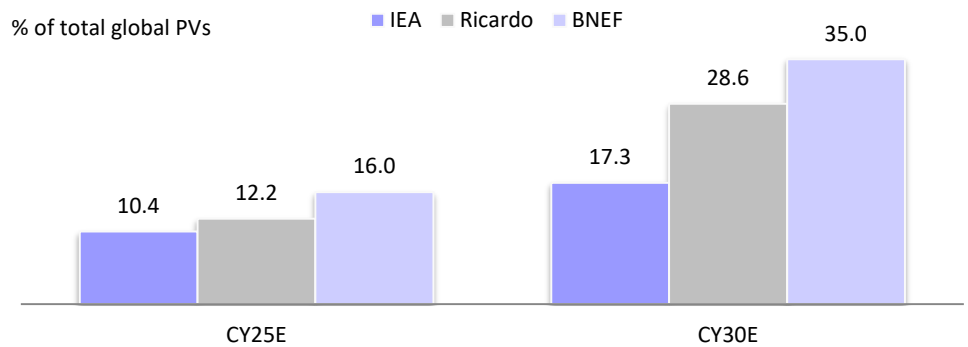
**Exhibit 14: BNEF expects BEVs' share at 12%/29% in total PVs by CY25–30E**



Source: BNEF, MOFSL

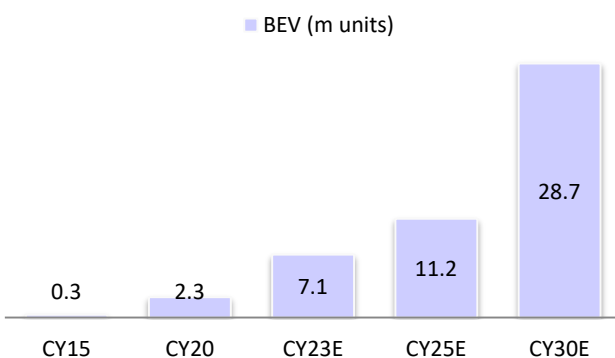
Even in the most conservative estimates, BEVs' share is expected to more than double over the next five years, led by an increase in BEV share in Europe and China to 20–25%.

**Exhibit 15: Various estimates put BEV share at 10–16% by CY25E and 17–35% by CY30E**



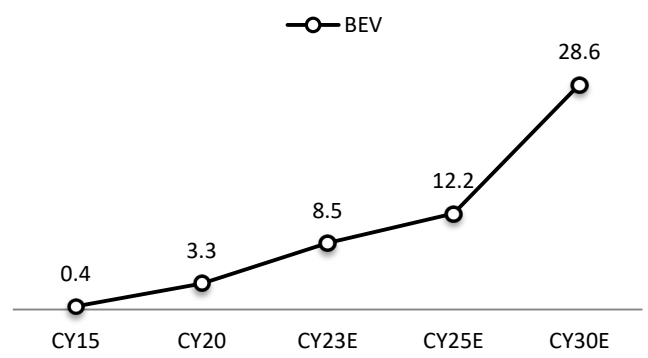
Source: BNEF, MOFSL

**Exhibit 16: Globally, BEVs to see ~29% CAGR (CY20–30E)**



Source: RHP, Ricardo Analytics, MOFSL

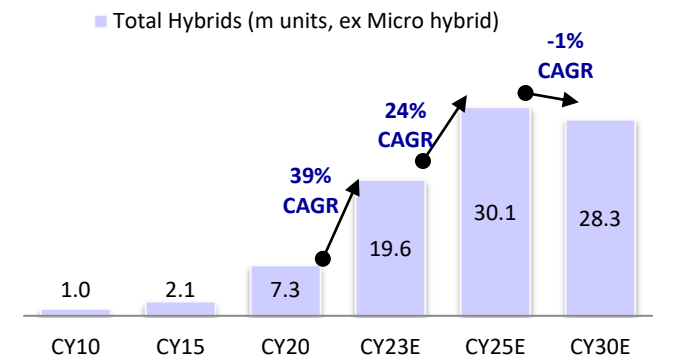
**Exhibit 17: BEVs to form 28.6% of total PVs by CY30E**



Source: RHP, Ricardo Analytics, MOFSL

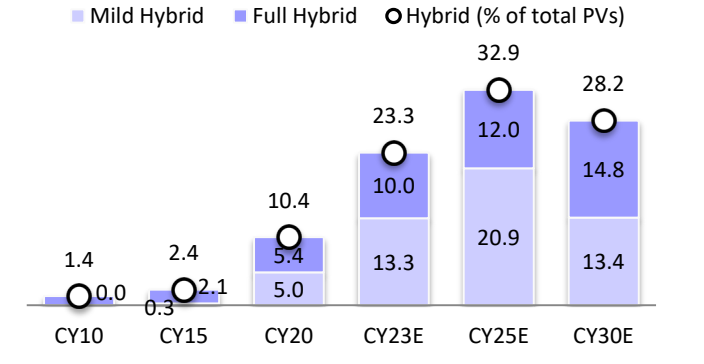
Stringent emission targets, particularly in the EU and China, would necessitate OEMs to focus on a higher degree of electrification as ICEs/micro-hybrids would be unable to meet emission targets. Hence, mild and full hybrids would see an increase in share to ~33% by CY25E (from ~10% in CY20), before declining to ~28% by CY30E, as BEVs turn more competitive.

**Exhibit 18: Hybrids to see ~14.5% CAGR over CY20–30E**



Source: RHP, Ricardo Analytics, MOFSL

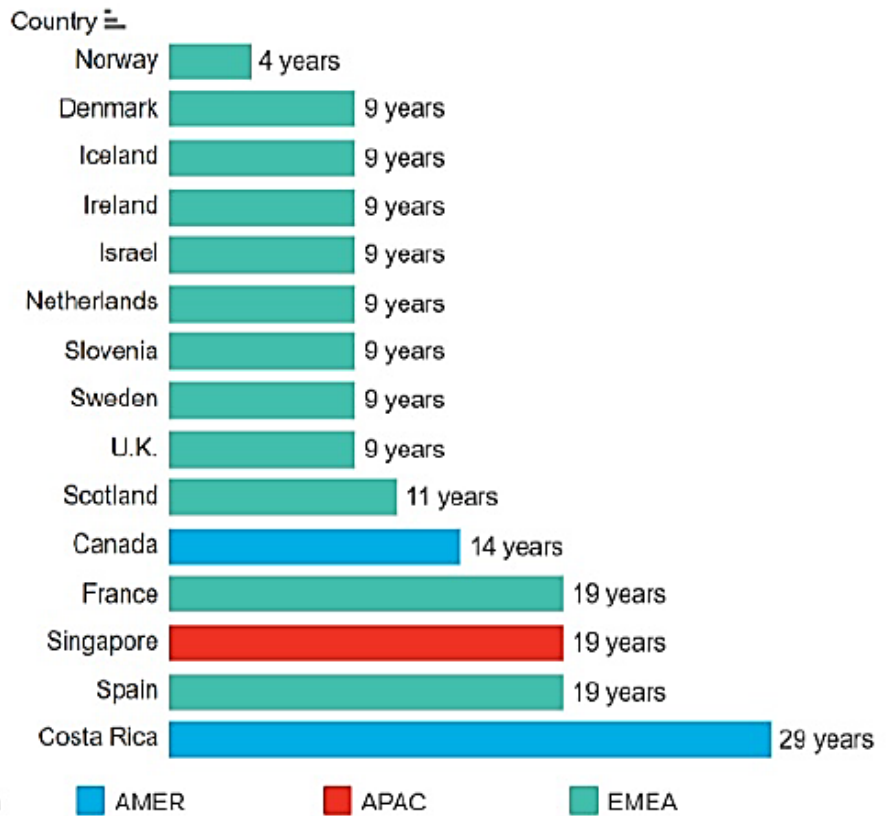
**Exhibit 19: Hybrids (excl. micro-hybrids) to form 33% of total PVs by CY25E and 28% by CY30E**



Source: RHP, Ricardo Analytics, MOFSL

Many governments have laid down clear roadmaps for phasing out ICE vehicles, enabling OEMs to set up an aggressive roadmap for the electrification of their portfolios.

**Exhibit 20: Years remaining until national ICE sale phase-out**



Source: BNEF, MOFSL

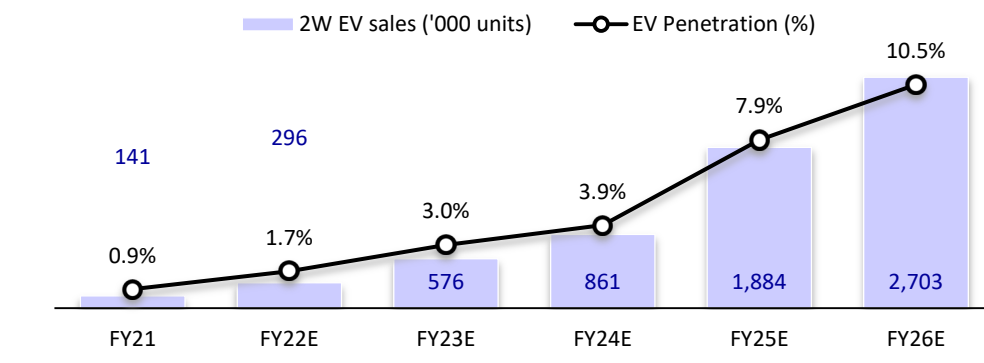
**Exhibit 21: Automaker electric vehicle model offerings and sales targets**

Automaker group	Announced investment	Electric models	Annual global electric sales (approximate share of automaker overall production)
<b>Toyota-Suzuki-Mazda-Subaru</b>	❖ USD35b over 2022–2030 for BEV ❖ USD35b over 2022-2030 for FCEV & hybrids	❖ All vehicles hybrid, battery, or fuel cell electric by 2025	❖ 3.5m BEVs by 2030
<b>Volkswagen Group</b>	❖ USD42b on BEVs by 2025 ❖ USD60b battery procurement	❖ 70 battery electric models by 2030 ❖ Electric or hybrid version of all models by 2030	❖ 4–5m (40%) by 2030
<b>Hyundai</b>	❖ USD16b through 2025	❖ 23 BEVs, 6 PHEVs, 2 fuel cell electric vehicles (FCEVs) by 2025 (Hyundai Motor Group)	❖ 600,000 (13%) by 2025
<b>Kia</b>	❖ USD25b through 2025	❖ 11 electric vehicles by 2026	❖ 500,000 (17%) by 2026 ❖ 880,000 (27%) by 2030
<b>Ford</b>	❖ USD30b by 2025	❖ 16 all-electric models by 2022 ❖ In Europe, all plug-in electric by mid-2026 and all electric by 2030	❖ 2.3m (40%) by 2030 ❖ 600,000 in Europe from 2023 through 2028 (up to 20%)
<b>Honda</b>	❖ USD430m facility in China ❖ USD300m for battery plants	❖ 100% hybrid or electric sales in Europe by 2025 ❖ 20 electric models in China by 2025 ❖ Two-thirds hybrid or electric sales globally by 2030	❖ 100% battery electric or fuel cell by 2040 ❖ 2m (30%) by 2030
<b>Nissan-Renault-Mitsubishi</b>	❖ USD9.5b in China over 2018–2022 ❖ USD1b in Thailand by 2020	❖ 20 electric models by 2022 (China)	❖ 3m (30%) by 2022
<b>General Motors</b>	❖ USD35b for electric and autonomous vehicles from 2020 through 2025	❖ 30 new electric models globally by 2025, with 20 available in North America	❖ 100% electric by 2035 ❖ 1m by 2025 (15%)
<b>Fiat Chrysler*</b>	❖ USD10.5b to develop hybrid and electric vehicles through 2022	❖ 30 nameplates will have hybrid or electric options by 2022	❖ 75,000 (3%) by 2022 in China and North America combined
<b>Mercedes</b>	❖ USD13b manufacturing plant ❖ USD1.2b battery manufacturing ❖ USD22b battery procurement	❖ 10 electric models by 2022 ❖ 25 plug-in hybrid models by 2025	❖ 1.5m (50%) by 2030
<b>BMW</b>	❖ USD11b battery procurement from 2020–31	❖ 13 electric models by 2025 ❖ 12 plug-in hybrid models by 2025	❖ 900,000 (30%) by 2030
<b>Jaguar Land Rover</b>	❖ USD18b over 2019–22	❖ All Jaguar models battery electric by 2025 ❖ Offer battery electric for all models by 2030	❖ 180,000 (100%) Jaguar battery electric by 2030 ❖ 225,000 (60%) Land Rover zero emission by 2030
<b>PSA Group*</b>	❖ USD250m in electric motors ❖ USD90m in transmissions	❖ Hybrid or electric options of all models by 2025	❖ (not available)

Source: ICCT, MOFSL

**Exhibit 22: Indian e-2Ws to see ~81% CAGR over next five years**

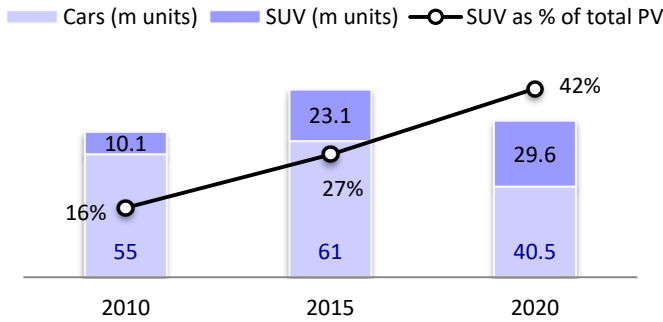
Post the increase in incentives under FAME-II, various state incentives, and the PLI scheme, we expect EV penetration in the 2W segment to be in the 9–10% range by CY25.



Source: RHP, Crisil, MOFSL

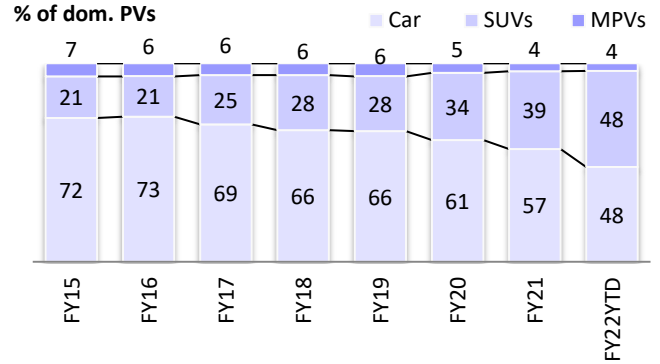
**1b** The premiumization trend observed across segments globally as well as in India is expected to continue. In PVs, the share of premium vehicles and SUVs (incl. 4WD) is expected to rise further in India (SUVs formed 39% of domestic PVs in CY20) and globally (SUVs formed 42% of the total PV volumes in CY20). In India CVs, the share of multi-axle vehicles is expected to recover from lows of 19% in FY21 (v/s 37% in FY18), driven by economic recovery. In India Tractors, higher HP tractor share is expected to rise further (>51HP at 9.5% of total v/s 6% in FY15), led by increasing usage of farm implements.

**Exhibit 23: Increasing share of SUVs in global PVs...**



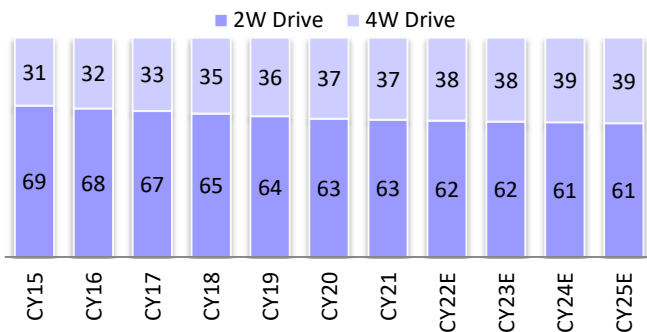
Source: Industry, MOFSL

**Exhibit 24: ...as well as in India**



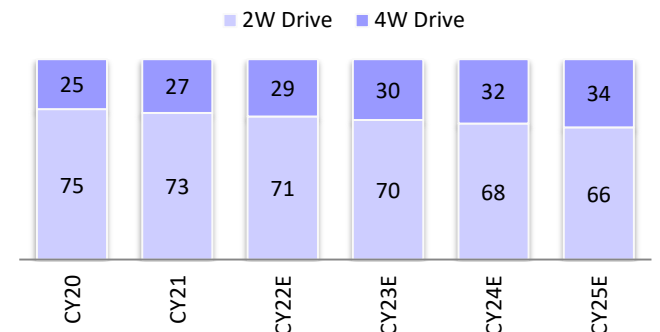
Source: SIAM, MOFSL

**Exhibit 25: 4WDs' share in ICE PVs increasing gradually (% of total)...**



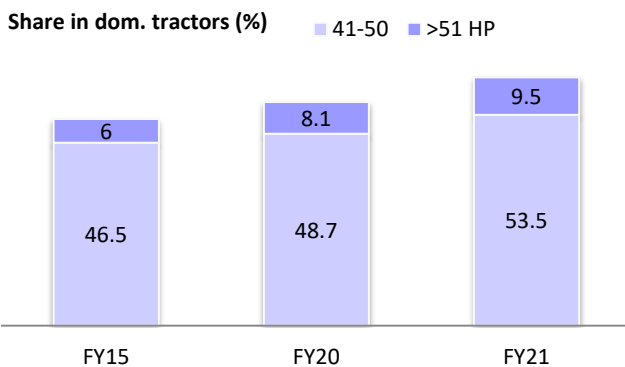
Source: Company, MOFSL

**Exhibit 26: ...with BEVs also seeing similar trends towards 4WDs (% of total)**



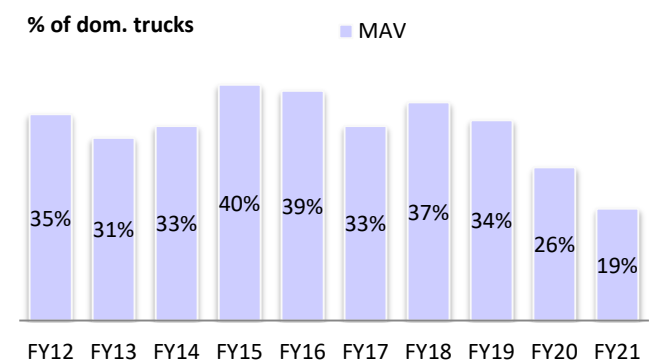
Source: Company, MOFSL

**Exhibit 27: Share of higher HP tractors going up**



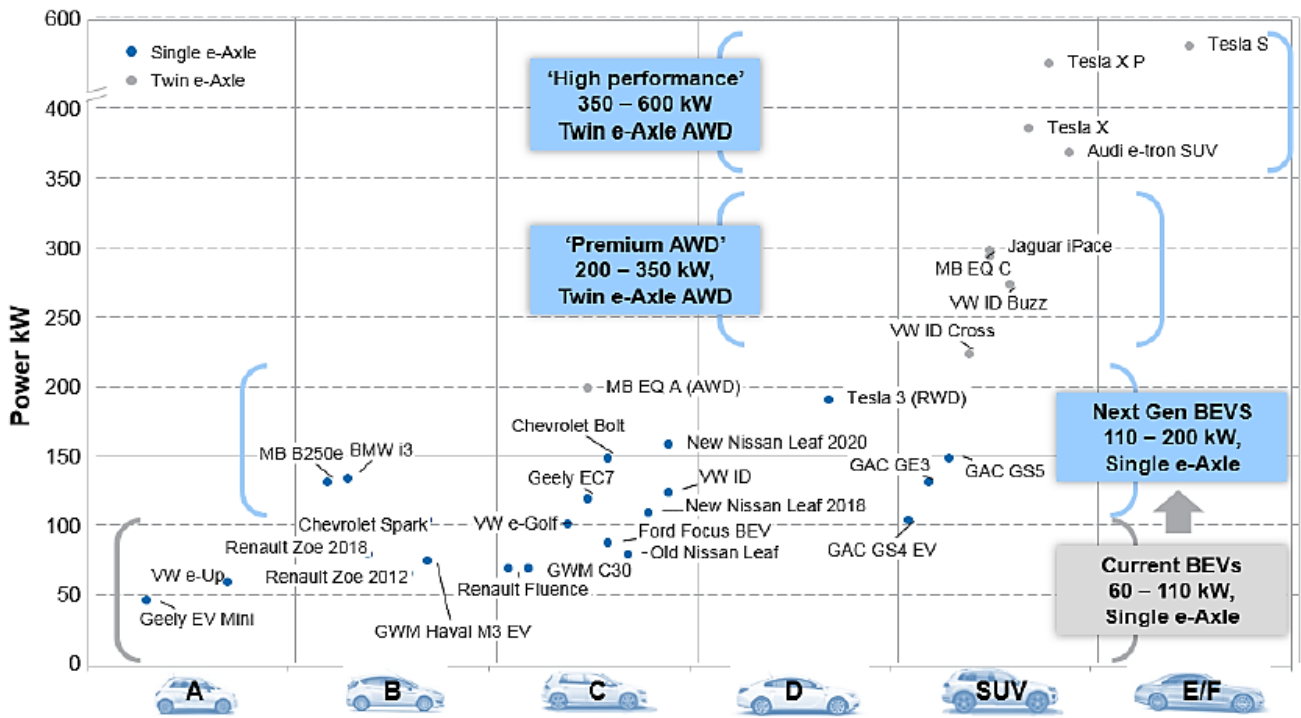
Source: Industry, MOFSL

**Exhibit 28: Share of multi-axle trucks down in last two years, but expected to normalize as cycle recovers**



Source: Industry, MOFSL

Exhibit 29: Electric passenger vehicles – drivetrain type



Source: RHP, MOFSL

## SONACOMS offers clean play on global EVs...

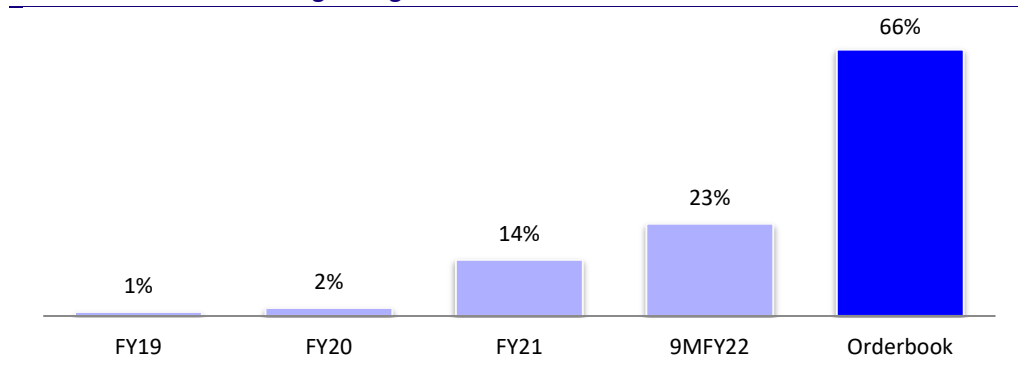
...with increasing share of EVs, rising market share, and good global presence

- SONACOMS’ unique positioning is driven by a) fuel-agnostic product technology, b) a sizeable and increasing presence in EVs, c) a well-diversified global presence, and d) an expanding customer base.
- It is well-positioned to ride the EV disruption as both its product segments not only remain relevant but also benefit substantially from the content increase. While its Driveline business is fuel-agnostic, its Electricals (Motor) business would benefit from increasing hybridization as well as total electrification. It has been awarded 15 development programs for EV systems and components by 10 customers (as of Mar’21), of which the active production process has commenced for eight programs.
- The BEV segment already contributed ~23% to revenues in 9MFY22 (v/s 14% in FY21) and 66% of the order book consists of EVs. We estimate over 41% of FY24 revenues to come from the BEV segment.
- It is a dominant player in the Indian Differential Gears market, with 55–60% share in PVs, 80–90% in CVs, and 75–85% in Tractors. Moreover, it has been gaining market share globally in its key product segments – BEV differential assemblies (12% market share in 1HCY21 v/s 8.7% in CY20), differential gears (6.3% in CY21 v/s 5% in CY20), and starter motors (4.6% in CY21 v/s 3% in CY20).
- More importantly, SONACOMS is a truly global player, with a presence across the key markets of China (~11% of FY21 revenues), the EU (~27%), North America (~36%), and RoW (~1%). It has three assembly plants outside of India (the US, Mexico, and China).
- It enjoys long-standing relationships with key customers in India and overseas (with both OEMs and tier 1 suppliers). It has nearly doubled its customer base in the last five years to 47 customers (from 22 customers) through new customer additions and the acquisition of Comstar (10 new customer additions). It has never lost a customer since its inception and has over 15-year relationships with 13 of its Top 20 customers.

2a

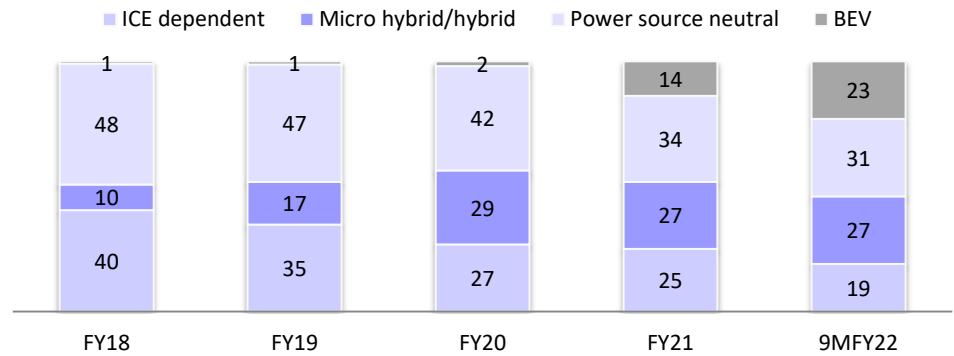
SONACOMS’ Product Technology segment is largely fuel-agnostic and offers a significant increase in content due to electrification. It has reasonably diversified its product portfolio, with increasing contribution from the EV segment (EV segment contribution at ~23% of revenues in 9MFY22 and ~66.4% of the order book). It already has 24 orders in EV components out of which 17 are in order book (10 in PVs, six in 2Ws/3Ws, and one in CVs) and 7 are in serial production.

Exhibit 30: EV contribution growing for SONACOMS



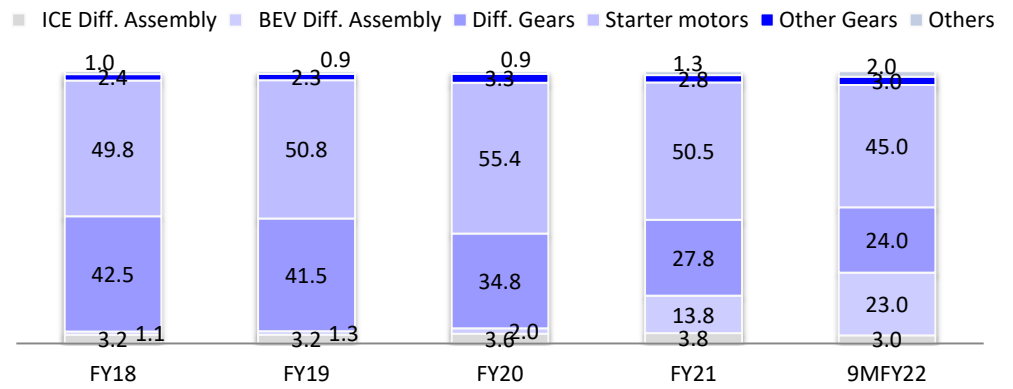
Source: Company, MOFSL

**Exhibit 31: Pure ICE dependence continues to decline steadily to 19.0% in 9MFY22 from 35% in FY18**



Source: Company, MOFSL

**Exhibit 32: Reasonably diversified product mix, with increasing salience of EVs (% of sales)**



Source: Company, MOFSL

**Exhibit 33: Snapshot of SONACOMS product**

Product	Contribution (%)		FY21 market share (%)	Key competitors
	FY21	FY24E		
Differential Gears	27.8	18.1	<b>India PVs:</b> 55–60% <b>India CVs:</b> 80–60% <b>India Tractors:</b> 75–88% <b>Global PVs/CVs/OHVs:</b> 5%	❖ <b>PVs:</b> Sundram Fasteners, India Pistons, imports <b>CVs:</b> American Axle, Meritor, Dana <b>Tractors:</b> New Allenbery, Punjab Bevel Gears, GNA, Bharat Gears <b>Global PVs:</b> American Axle, Showa Corp, Musashi Seimitsu Ind, Meritor, GKN
Differential Assembly (DA)	17.6	36.8	<b>Global PVs/CVs/OHVs:</b> 5% <b>Global BEV:</b> 8.7%	❖ Borg Warner, JTEKT Corp, Dana, American Axle, GKN, Hyundai WIA Corp
ICE DA	3.8	2.4		
BEV DA	13.8	34.5		
Micro-hybrid Starter Motors	26.7	20.8	<b>Global:</b> 3%	❖ <b>Global:</b> Denso, Borg Warner, SEG Automotive, Hitachi, Valeo <b>India:</b> SEG Automotive, Lucas TVS, Spark Minda, Auto Ignition, Mahle
Conventional Starter Motors	23.8	13.6		
Traction Motor for e-2Ws	0.7	2.9		❖ Mahle, SEG Automotive, Lucas TVS, Bosch
Others	3.5	7.8		

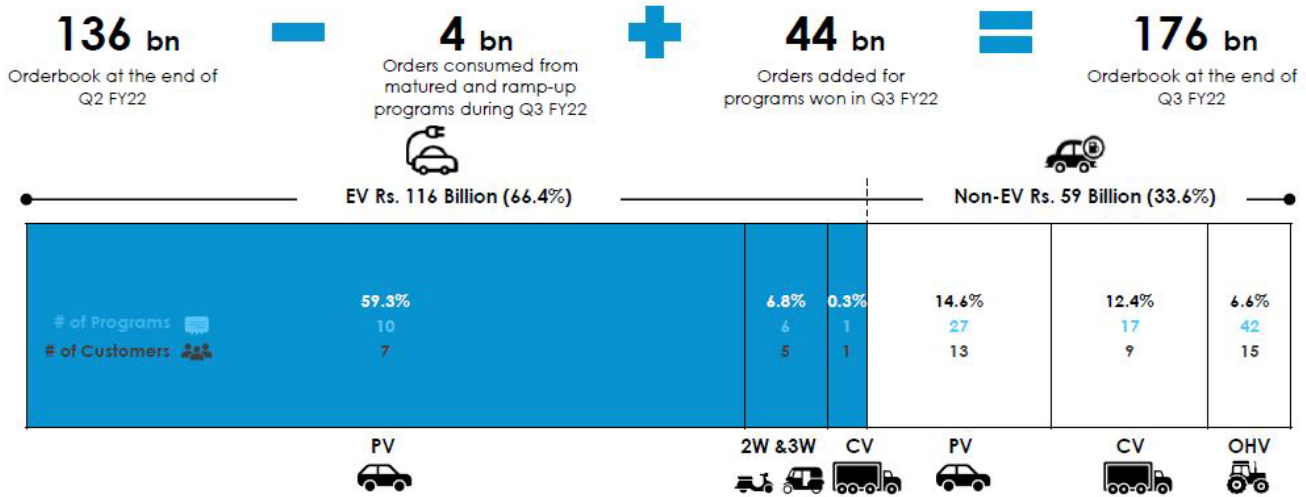
Source: Company, MOFSL

Exhibit 34: SONACOMS has strong order book, with over 66.4% of book from EV segment



# Scaled Player with High and Profitable Growth Outlook

Our net order book<sup>1</sup> at Rs. 176 billion is 11.2x FY21 revenue



Notes:

1. Net order book means the aggregate revenue from awarded programs which are either yet to start production or are yet to fully ramp up, in the next 10 years, after adjusting for the negative impact of all programs that are expected to reach end of life or be phased out. We have also applied a discount to accommodate any unforeseen delays or changes in program launches that may happen in the future.

SONA COMSTAR 13

Source: Company, MOFSL





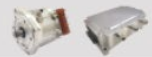
SONACOMS' product technology for both segments is largely fuel-agnostic. While its Driveline business is fuel-agnostic, its Electricals (Motors) business would benefit from increasing hybridization as well as total electrification.

Exhibit 35: Starter motor required in both ICEs and hybrids

Propulsion	Architecture	Starter
ICE	Conventional	Yes
	P0	Yes
MHEV	P1	No
	P4	Yes
	P1	No
HEV (incl PHEV)	P2	Yes
	DHT	Yes
	P4+ (P0 & P4)	Yes
	P4+ (Others)	No
BEV	P4	No

Source: Company, MOFSL

**Exhibit 36: Large portion of SONACOMS product portfolio is fuel-agnostic and benefits from electrification**

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 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

Source: Company, MOFSL

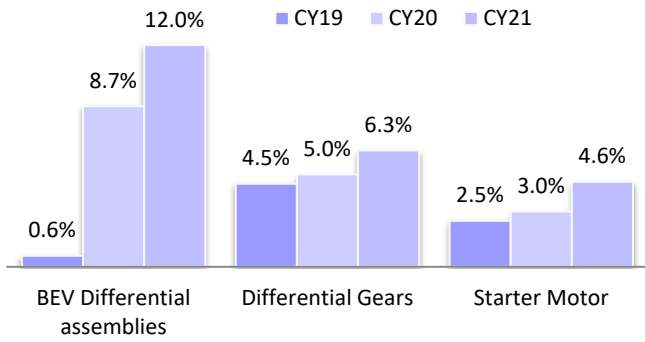
**Exhibit 37: Product and threat/opportunities from electrification**

	ICE	ICE with Micro-Hybrid (Start-Stop)	ICE-Mild Hybrid	ICE-Full Hybrids	BEV (Battery Electric Vehicle)
<b>Bevel Gears</b>	100	= No change in design requirements of Bevel gear	= No change in design requirements of Bevel gear	=/+ Certain changes in design requirements of Bevel gear	+ Increased durability and NVH requirements
<b>Differential Assembly</b>	100	= No change in design requirements of differential assembly	= No change in design requirements of differential assembly	=/+ Certain changes in design requirements of differential assembly	+ Increased durability and NVH requirements
<b>Starter Motor</b>	100	+ Improved starter motor design to handle increased number of duty cycles	= No change in design requirements of starter motor	= No change in design requirements of starter motor	NA
<b>BSG (Belt Starter Generator)</b>	NA	Not Applicable (NA)	+ BSG to provide torque assist and other functionality	NA/+ May or may not have an engine with a BSG system	NA
<b>Traction Motor</b>	NA	Not Applicable (NA)	+/NA Depending on the topology there could be AN additional traction motor integrated in the TM or rear axle	++ Depending on the topology there could be one or more traction motor integrated in the transmission or the rear axle	++ Depending on the drive type there could a traction motor at front or rear axle or both axles.

Source: Company, MOFSL

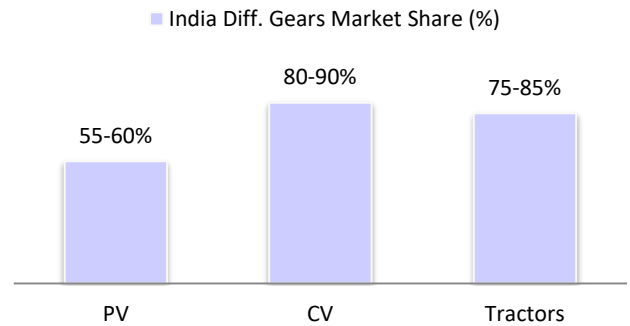
**2b** It is dominant player in the Indian Differential Gears market. Globally, it has seen market share expansion in its key product segments. It is a truly global player with a presence across the key markets of China (~11% of FY21 revenues), the EU (~27%), North America (~36%), and RoW (~1%). It has three assembly plants outside of India (the US, Mexico, and China).

**Exhibit 38: SONACOMS gains market share in key products globally**



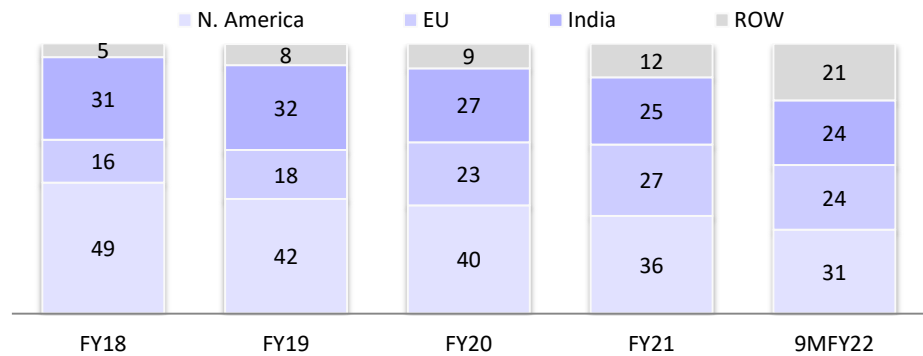
Source: Company, MOFSL

**Exhibit 39: SONACOMS leads market in India Differential Gears market**



Source: Company, MOFSL

**Exhibit 40: SONACOMS has very well-diversified geographic mix (% of sales)**



Source: Company, MOFSL

2c

SONACOMS enjoys long-standing relationships with key customers in India and overseas (with both OEMs and tier 1 suppliers). It has nearly doubled its customer base in the last 5 years to ~50 customers (from 22 customers) through new customer additions and the acquisition of Comstar (10 new customer additions). It has never lost a customer since its inception and has over 15-year relationships with 13 of its Top 20 customers.

**Exhibit 41: Top 3 customers now account for ~45% of revenues (v/s ~54% in FY18)**

	FY18	FY19	FY20	FY21
Customer 1 - North American OEM of PVs and CVs	30.8%	26.7%	23.4%	16.9%
Customer 2 - European OEM of PVs and CVs	12.2%	15.1%	20.1%	15.4%
Customer 3 - Global OEM of EVs	0.0%	0.2%	1.4%	13.1%
Customer 4 - Global OEM of PVs, CVs and EVs	1.4%	1.4%	2.4%	6.8%
Customer 5 - Global Tier 1 Supplier for PVs, CVs, OHVs and EVs	6.1%	6.1%	6.5%	5.6%
Customer 6 - Indian OEM of PVs, CVs and EVs	6.8%	7.2%	5.4%	4.9%
Customer 7 - Global OEM of OHVs – 1	5.1%	4.9%	4.6%	4.9%
Customer 8 - Indian OEM of PVs, CVs, OHVs and EVs	5.1%	5.0%	5.0%	4.3%
Customer 9 - North American Tier 1 Supplier for PVs and EVs	11.4%	9.8%	8.1%	4.0%
Customer 10 - Asian OEM of PVs and CVs	0.3%	2.6%	4.0%	3.7%

Source: Company, MOFSL

**Exhibit 42: More than 15-year-old relationships with 13 of Top 20 customers**

Customer	Commencement of Customer Relationship	Number of Years of Customer Relationship
Mahindra & Mahindra	1998	23
Indian OEM of PVs, CVs and EVs	1999	22
Global Tier 1 Supplier for PVs and CVs	1999	22
TAFE	2000	21
Dana	2001	20
North American OEM of PVs and CVs	2002	19
Maruti Suzuki	2002	19
JLR	2003	18
Indian OEM of OHVs- 3	2003	18
Carraro	2003	18
Indian Tier 1 Supplier for CVs	2003	18
CNH	2004	17
Volvo Cars	2006	15
John Deere	2008	13
Escorts	2008	13
North American Tier 1 Supplier for PVs, CVs, OHVs and EVs	2009	12
Linamar	2015	6
Renault Nissan	2015	6
Geely	2016	5
Global OEM of EVs	2017	4

Source: Company, MOFSL

## Multiple drivers to grow faster than industry...

...driven by content increase, market share gains, and new products

- SONACOMS is geared for faster growth than the underlying industry, driven by a) a content increase in the existing portfolio; b) market share gains in North America, Europe, and China; and c) new products such as traction motors, controllers, and BSG.
- The SONACOMS product portfolio is largely fuel-agnostic and benefits from electrification owing to increased complexity in both Driveline and Electricals (Motors). It also benefits from the structural premiumization trend observed in all of the Automotive segments – PVs (SUVs, 4WDs, BEVs), CVs (MAVs), and tractors (higher HP).
- Electrification increases content for differential gears and assemblies for the company in three ways:
  - New EV players and some traditional OEMs are taking complete differential assemblies for BEVs (v/s mostly gears with ICE customers), where the realization multiple for a DA is ~4x that of just gears.
  - A higher torque requirement needs more sophisticated design, resulting in an average of 25% higher realization for DAs for BEVs.
  - Along with DAs, it supplies the reduction/final gear mounted on the DAs as a complete set, resulting in a further increase in content by 60–70%.
- Premiumization benefits the SONACOMS differential gears portfolio as gear value is dependent on size and complexity, which is determined based on torque.
  - In PVs, the number/value of gears goes up in SUVs (as the torque is higher) and 4WDs (8 gears v/s 4 in 2WDs) – the share of SUVs/4WDs is on the rise globally as well as in India.
  - In CVs, multi-axle vehicles (MAVs) have 21 gears in two-axle trucks, against six in single-axle trucks. Also, the value of gears goes up with the size of the CV.
  - Similarly, in tractors, the value/number of gears is directly linked with HP and the number of axles (2WDs v/s 4WDs).
  - The Starter Motor business would benefit from hybridization as the share of mild and full hybrids is expected to increase to ~33% by CY25 from ~10% of global PVs in CY20, implying a ~26% CAGR. Start-stop motors for hybrids have higher realization of up to 30%. Hybridization provides the opportunity to expand market share (through higher wallet share with existing customers and new customer acquisitions). Its market share increased to 4.6% in CY22 (v/s 2.5% in FY20), driven by start-stop motors.
  - SONACOMS offers traction motors and controllers for e2W/e3W. It already has orders for traction motors for electric 2Ws/3Ws from three OEMs in India (two for 2Ws and one for 3Ws) and is in talks with several other OEMs. Also, it has recently won an order for controller from a 3W OEM as well. Furthermore, it offers e-axles for 3Ws and independent suspensions for e-axles for 3Ws and secured an order from 3W OEM during 3QFY22, increasing penetration in e3W segment. Moreover, it has a ready 48V BSG motor for hybrids, which has the potential to replace 12V starter motors post CY25, resulting in an increase in content (4–5x 12V starter motors).
  - SONACOMS has added a new product segment in form of IMCM (motor controller for smart suspension system), thereby expanding its product portfolio beyond driveline and starter motors. This is driven by its focus on innovation by leveraging its capabilities on electrical and software to develop new revenue streams. It has got order for IMCM for a new European customer (luxury segment), with peak revenues of ~INR4b and SOP from FY25. More importantly, this product is targeted towards premium PVs (E & F segment) having annual global volumes of 2.5-3m units, implying addressable market size of USD1.5-1.7b.

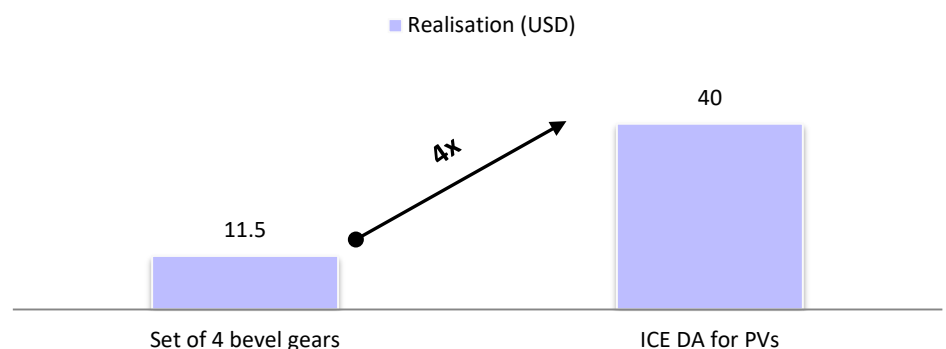
➤ Although SONACOMS is well-diversified geographically, it has the potential to gain market share in the EU, US, and China. The EU and China are the two largest global BEV markets and hence present immense opportunity. In Gears, it has scope to expand share in the EU, where it has negligible share (against ~15% in the US). In DAs for BEVs, it is focused on ramping up operations in the US, EU, and Asia. In Starter Motors, the focus is on adding new customers to improve overall market share.

3a

The increase in content in the SONACOMS product portfolio would be driven by the two mega trends of electrification and premiumization. Electrification is driving an increase in content through a) the supply of DAs over just gears to BEV OEMs (4x only gears), b) increased complexity due to substantially higher torque (25% higher for BEV DAs vis-à-vis ICE DAs), and c) the opportunity to supply the complete DA set with reduction/final gears (60–70% higher content over BEV DAs).

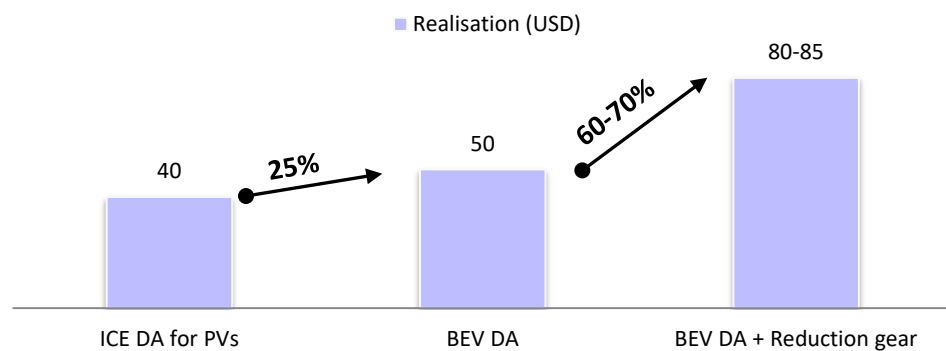
SONACOMS' presence in ICE DAs is largely in OHVs and not in ICE PVs due to simpler technology having resulted in low margins. However, in BEVs, it is supplying DAs as a complete set with reduction gears, which offers ~2x ASP over ICE DAs.

**Exhibit 43: Forward integration from gears to differential assemblies results in ~4x ASP**



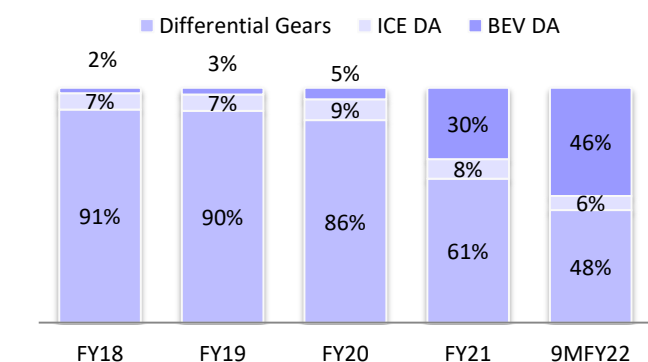
Source: RHP, Company, MOFSL

**Exhibit 44: Increase in realization from forward integration to differential assemblies**



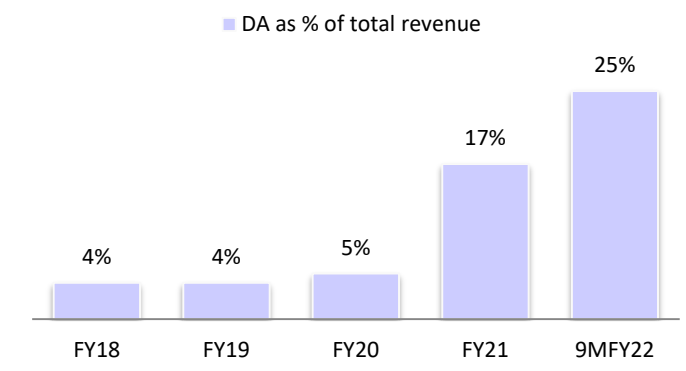
Source: RHP, Company, MOFSL

**Exhibit 45: DAs' share in Driveline business increases...**



Source: Company, MOFSL

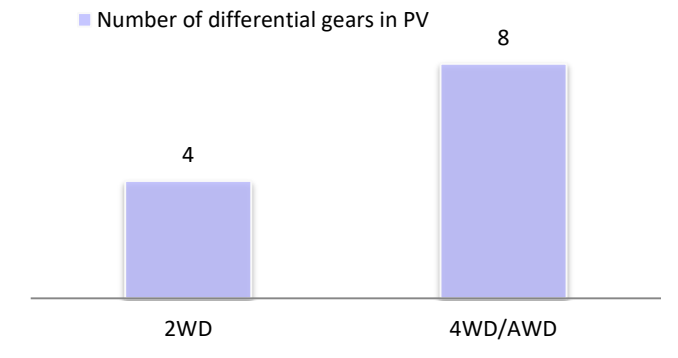
**Exhibit 46: ...as DAs turn sizeable in overall revenues**



Source: Company, MOFSL

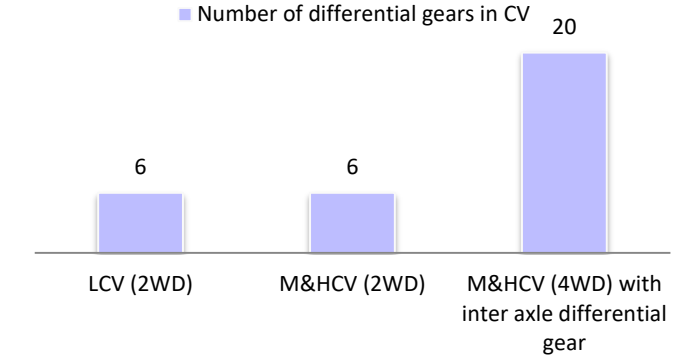
Premiumization benefits SONACOMS' differential gears portfolio as gear value is dependent on size and complexity, which is determined based on torque. In PVs, SUVs (higher torque) and 4WDs (2x gears v/s 2WDs) have much higher content. In CVs, MAVs have at least 2.5x higher content than single-axle trucks. Also, higher tonnage vehicles have higher content. Similarly, in tractors, content is higher for higher HP and 4WD tractors.

**Exhibit 47: Number of gears double going from 2WDs to 4WDs**



Source: Company, MOFSL

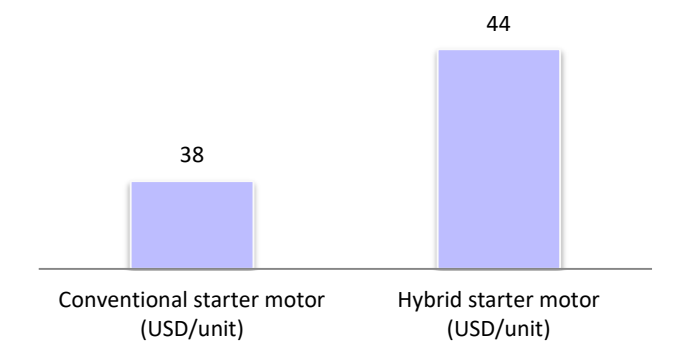
**Exhibit 48: Gears increase significantly going from single-axle to multi-axle CVs**



Source: Company, MOFSL

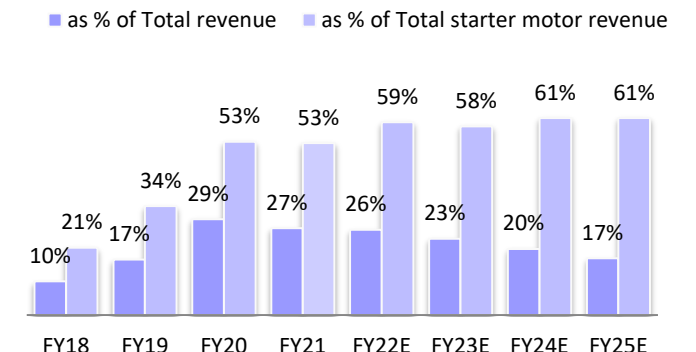
The Starter Motor business would benefit from the trend towards hybridization. Micro-hybrid starter motors have ~15% higher realization than ICEs. The share of mild and full hybrids is expected to rise to ~33% by CY25 from ~10% of global PVs in CY20, implying a ~26% CAGR. Market share grew to 4.6% in CY21 (v/s 2.5% in FY20), driven by start-stop motors.

**Exhibit 49: Micro-hybrid starter motors have over 15% higher realization...**



Source: RHP, Company, MOFSL

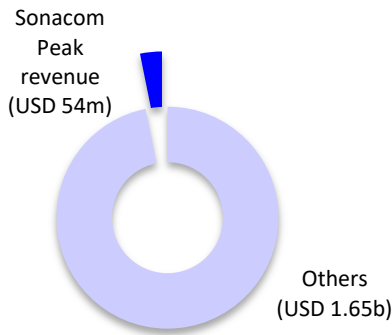
**Exhibit 50: ...with increasing share of micro-hybrid starter motors in Starter Motor business**



Source: RHP, Company, MOFSL

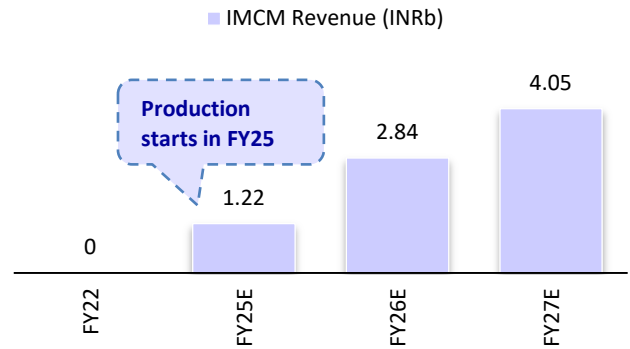
**3b** SONACOMS has added a new product segment in form of IMCM (motor controller for smart suspension system), thereby expanding its product portfolio beyond driveline and starter motors, into connected vehicle segment. This is driven by its focus on innovation by leveraging its capabilities on electrical and software to develop new revenue streams.

**Exhibit 51: SONACOMS would have peak revenue of USD~54m in FY27E from IMCM with addressable market size on USD~1.7b**



Source: Company, MOFSL

**Exhibit 52: IMCM production to start in FY25 and expected to peak in FY27**



Source: Company, MOFSL

**Exhibit 53: Predictive Active Suspension Integrated Motor Controller Module**

**Integrated Motor Controller Module (Motor + Controller + Software)**

~2 million lines of code per IMCM

**Exploded View of EMM**

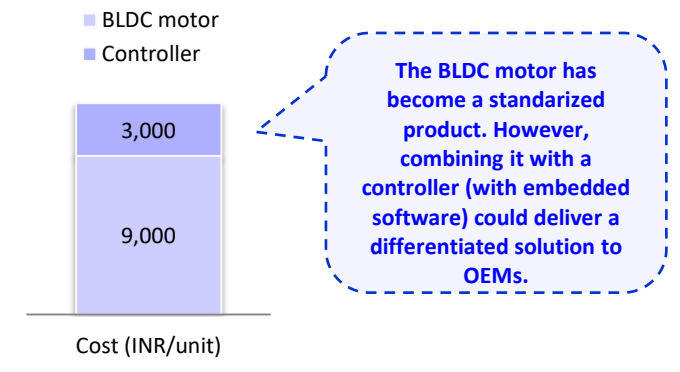
Controller + Software      Stator + Rotor

- The motor generates an exact amount of counter force required to nullify the impact of uneven road surfaces and provide a gliding experience to passengers
- It is a futuristic product for mass segment in automobile however it would become an essential component with increase in automation.

Source: Company, MOFSL

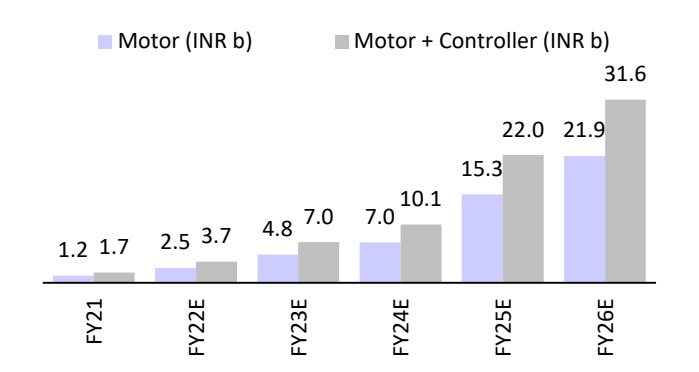
**3c** SONACOMS' new product development program is aligned to the changing trends in the Automotive industry. It already has orders for traction motors for electric 2Ws/3Ws from three OEMs in India. Furthermore, it offers controllers in tandem with traction motors, thus further increasing content. It has a ready 48V BSG motor for hybrids, which could potentially replace 12V starter motors post CY25, resulting in an increase in content (4–5x 12V starter motors).

**Exhibit 54: e-2W traction motors offer high value, with additional content from controllers**



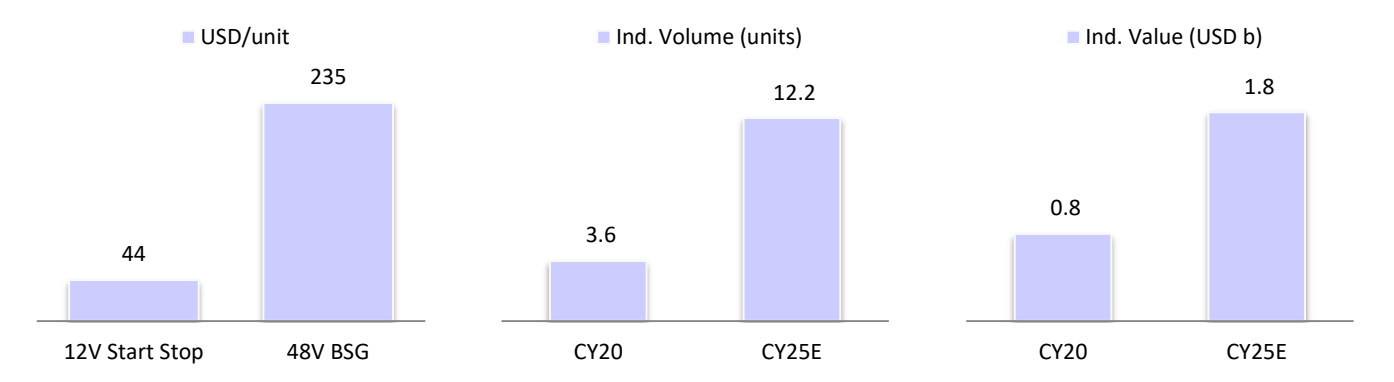
Source: Company, MOFSL

**Exhibit 55: India e-2W Traction Motor market to expand rapidly (assuming just 10% EV penetration by FY26E)**



Source: Company, MOFSL

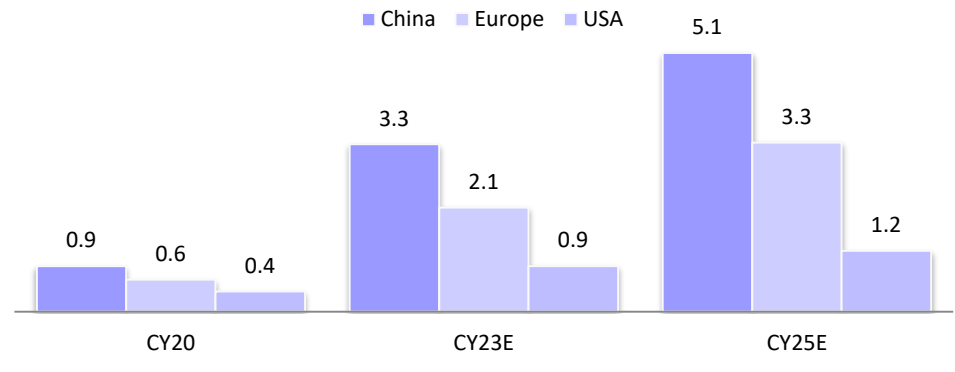
**Exhibit 56: 48V BSG motor has potential to replace 12V starter motors post CY25, resulting in increase in content (4–5x 12V starter motors)**



Source: RHP, Ricardo Analytics, MOFSL

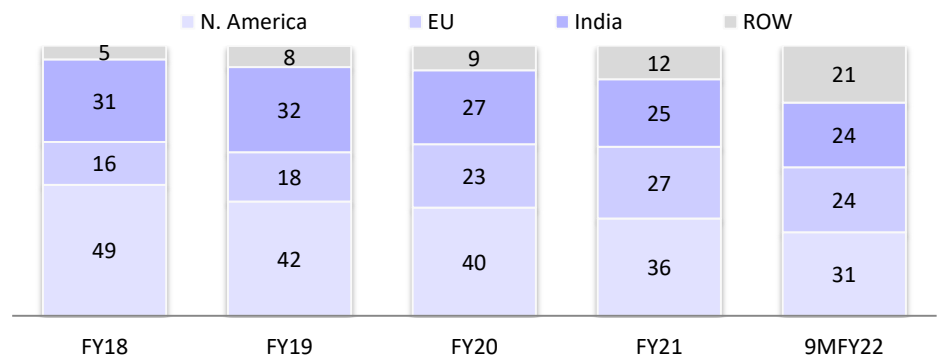
**3d** Potential for market share gains exists in North America, the EU, and China in both its product lines. The EU and China are the two largest global BEV markets and hence present immense opportunity. In Gears, it has scope to expand share in the EU, where it has negligible share (against ~15% in the US). In DAs for BEVs, it is focused on ramping up operations in the US, EU, and Asia. In Starter Motors, the focus is on adding new customers to improve overall market share.

**Exhibit 57: China and EU the largest EV markets (m units)**



Source: Company, MOFSL

**Exhibit 58: SONACOMS has well-diversified geographic mix, but scope to further increase contribution from EU and China (% of sales)**



Source: Company, MOFSL

## R&D critical for a technology-focused company

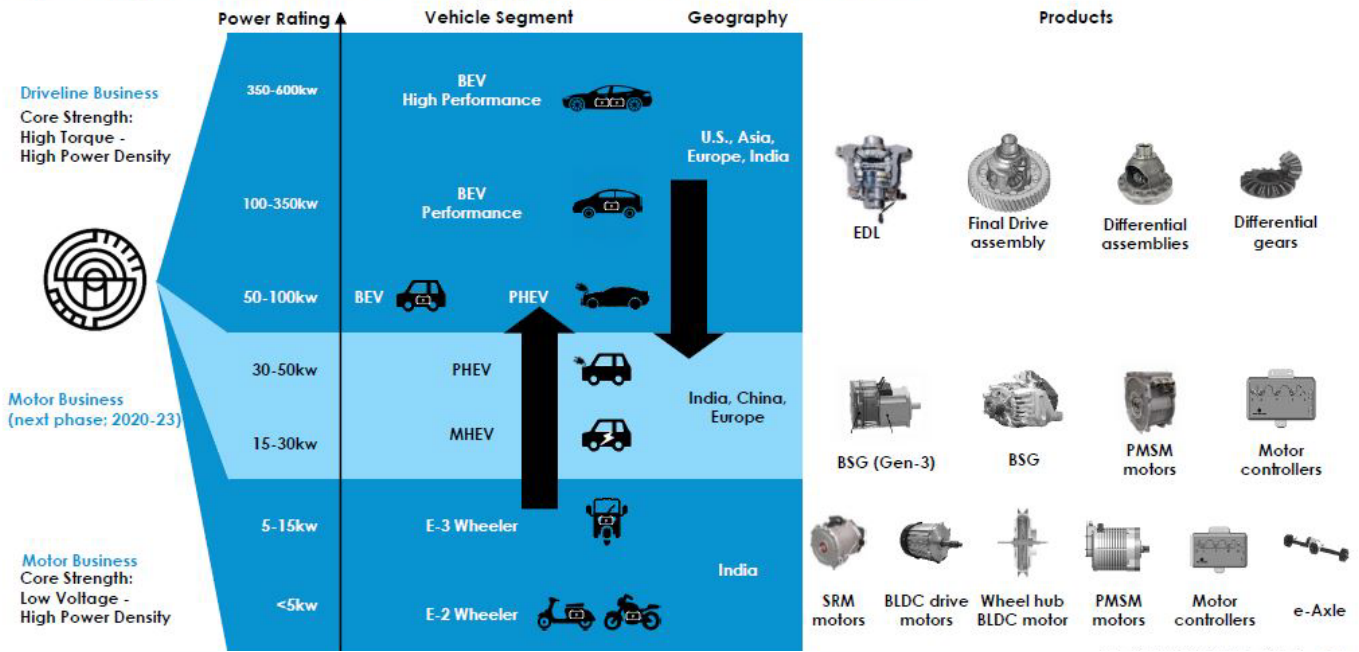
### Focus on forward integration in high-tech intensity products such as IDU

- SONACOMS has evolved into an automotive technology led company, with a focus on highly engineered, mission critical systems and components. It focuses only on two product technologies – Driveline and Electricals – which enable it to compete against its competitors that are largely global players. Its approach is to own the technology to capture maximum value and offer the best products to its customers.
- It has 186 on-roll employees engaged in R&D activities as of Mar'21, with 16 software engineers focused on R&D – as embedded software is a critical component in all electrified systems. It invests an average 3–4% of sales in R&D (FY21 was higher at ~6%).
- The SONACOMS technology roadmap is focused on developing new products that enable an increase in share from EVs and reduce dependence on ICE vehicles. Its focus on R&D is driven by its aim to capitalize on the electrification opportunity from both ends of the power spectrum and eventually offer both product categories to all of the market segments.
  - Its driveline products largely cater to high-voltage BEVs (>100KW). However, it has recently received an order for mid-segment BEVs as well (50-100KW) and is eyeing an entry into the small-segment BEVs.
  - In the Motor business, its core strength has been in making lower voltage motors with high power density/performance. It has also extensively developed software and power electronics capabilities to develop higher voltage systems such as 48V BSG or 30KW traction motors (for plug-in hybrid motors or small BEVs).
  - The longer term aim for the company with regard to traction motors would be to keep moving upwards along the power axis and get into traction motors for full-battery electric vehicles as well.
  - High-end inverters and circuits are not the company's forte; therefore, it would grow via collaborations or M&As. However, in some areas where it does not have capabilities (such as power electronics or high-voltage traction motors), it is open to alliances to reduce the lead times.
- It is open to collaborations or M&As in areas where it does not have the capabilities. It acquired Comstar to get access to the Motor business. Likewise, it has recently collaborated with IRP Nexus (Israel) to develop and manufactured magnet-less traction motors and controllers for e-2Ws.
- The company's core guiding principle for M&A is that it should not risk what it has created thus far. Apart from being value attractive, the company's M&A strategy is focused on enhancing its journey on the stated technology roadmap, which in turn requires unique technology and/or strong capabilities in electronics and software.
- SONACOMS has achieved a unique position owing to its capabilities in mechanical, electrical, and software under one roof. As a result, it is among the limited number of players that are well-placed to combine their motor and driveline capabilities to offer integrated drive units, which have three key components: differential assemblies, high-voltage traction motors, and high-voltage inverters.

**4a** SONACOMS' technology roadmap is focused on developing new products that enable an increase in share from EVs and reduce dependence on ICE vehicles. Its focus on R&D is driven by its aim to capitalize on the electrification opportunity from both ends of the power spectrum and eventually offer both product categories to all of the market segments.

Exhibit 59: SONACOMS' approach to market for electrification

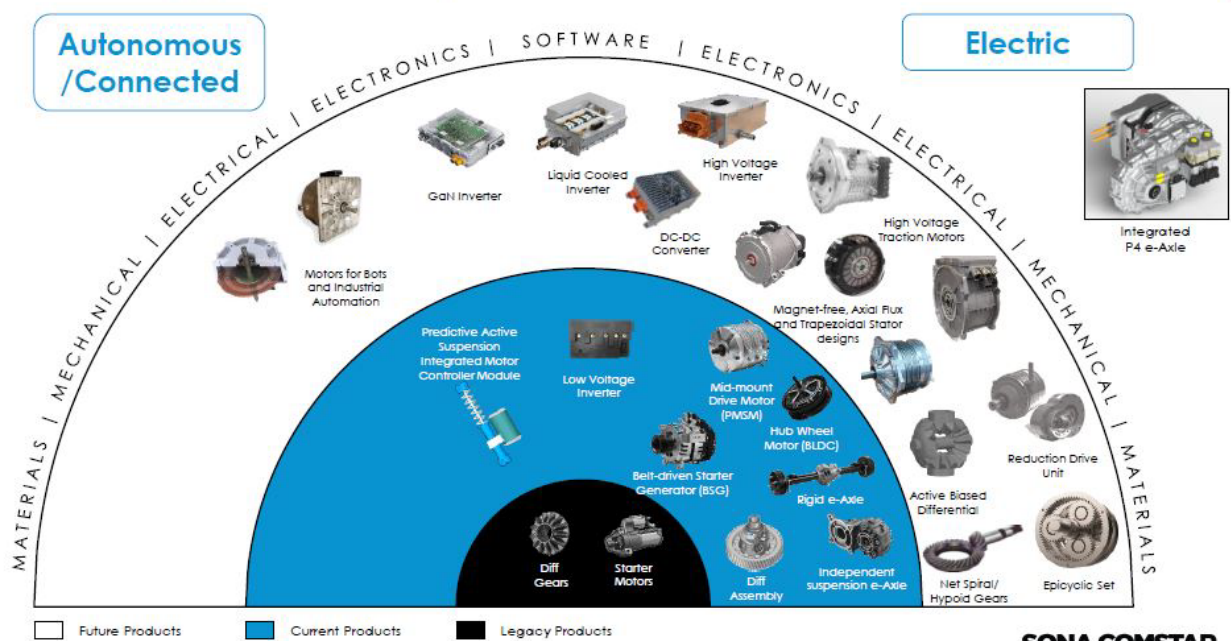
## Electrification: Our Approach to Market



Source: Company, MOFSL

Exhibit 60: SONACOMS' technology roadmap focuses on transitioning to integrated drive units, penetration in connected vehicle segment and industrial automation

## Technology Roadmap

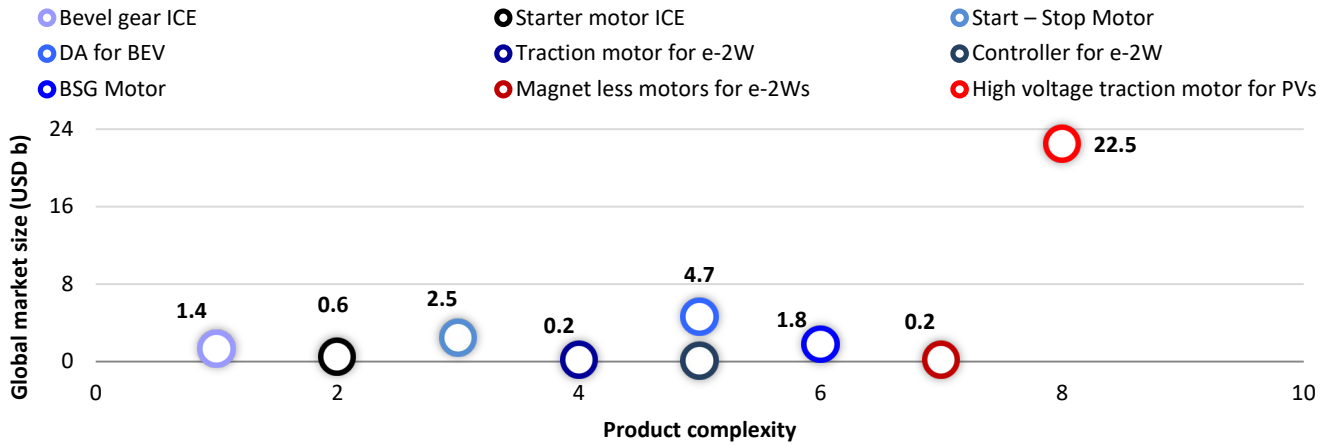


SONA COMSTAR

Note: The product images shown are for illustration purposes only and may not be an exact representation of the products

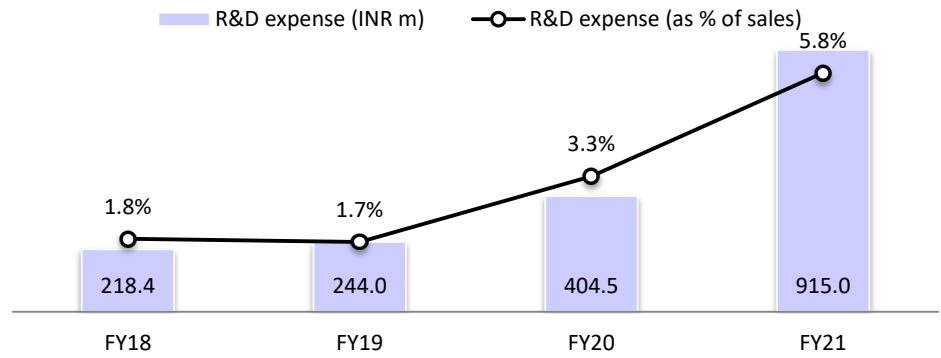
Source: Company, MOFSL

**Exhibit 61: Increasing opportunity from EV products that are either ready or under development**



Note: Current product supplied for => Grey – ICE, Green – BEV/Hybrids, Yellow – Product is ready, no material sales yet; Red – Product under development Source: Company, MOFSL

**Exhibit 62: SONACOMS would invest 3–4% of sales in R&D to capture the EV evolution**



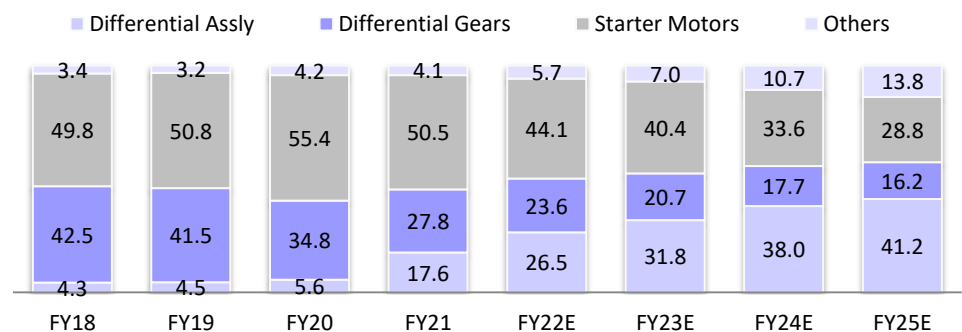
Source: Company, MOFSL

## Strong growth to be driven by ramp-up in BEV products

Estimate revenue/PAT CAGR of 33%/43% over FY21–25E

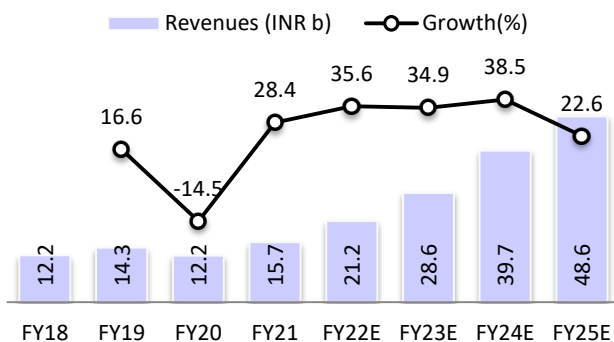
- Revenue is expected to grow at 33% CAGR over FY21–FY25E, largely driven by a 73% CAGR in the BEV DA business, a ramp-up in e-2W traction motors, and the commencement of revenues from BSG motors from FY24E.
- The EBITDA margin is expected to expand by ~150bp by FY25E (over FY21) to ~29.7%, driven by an improving mix (BEV DA) and the benefit of operating leverage.
- This would result in a PAT CAGR of ~43% over FY21–25E.
- While it is expected to incur capex of ~INR4.5b in FY22 to expand the driveline business capacity, we estimate sustainable capex of around INR5b p.a. to support the execution of its ~INR176b order book (as of Dec'21).
- We expect the working capital cycle to normalize to ~85 days, driven by normalization in debtor days to ~70 days.
- Balance sheet is expected to become debt free by FY22E (v/s gearing ratio of 0.2x in FY21).
- Asset turns are expected to improve, led by a) a better mix (BEV DA; Motors) and b) the normalization of working capital. Coupled with margin improvement, this would drive the expansion of RoCE by 11.2pp (over FY21) to ~25.8% by FY25E.

Exhibit 63: BEV DA to be key growth driver in foreseeable future



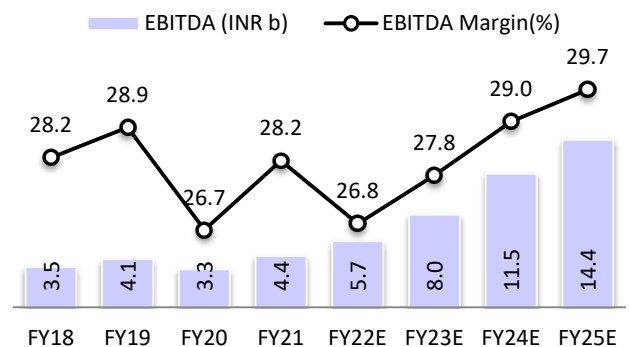
Source: Company, MOFSL

Exhibit 64: Expect 33% revenue CAGR over FY21–25, largely driven by 73% CAGR in BEV DA business



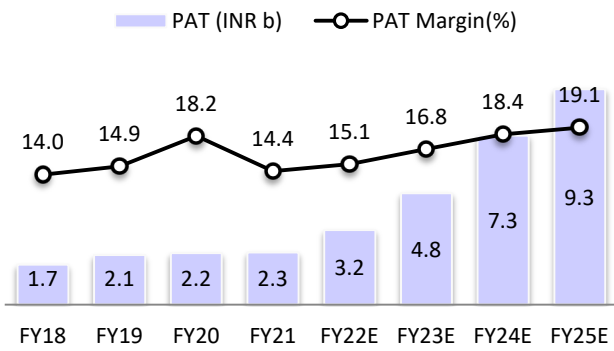
Source: Company, MOFSL

Exhibit 65: EBITDA margin to expand ~150bp by FY25E (v/s FY21), driven by better mix and operating leverage



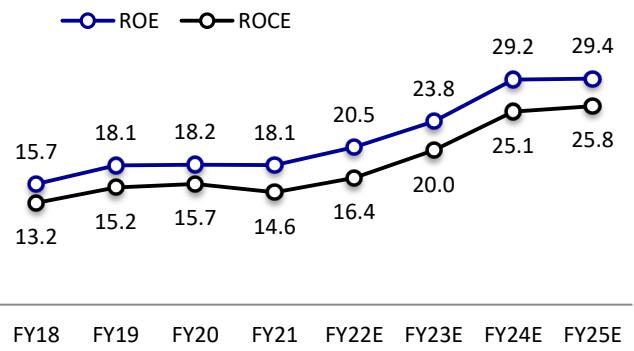
Source: Company, MOFSL

**Exhibit 66: Expect 43% PAT CAGR over FY21–25E**



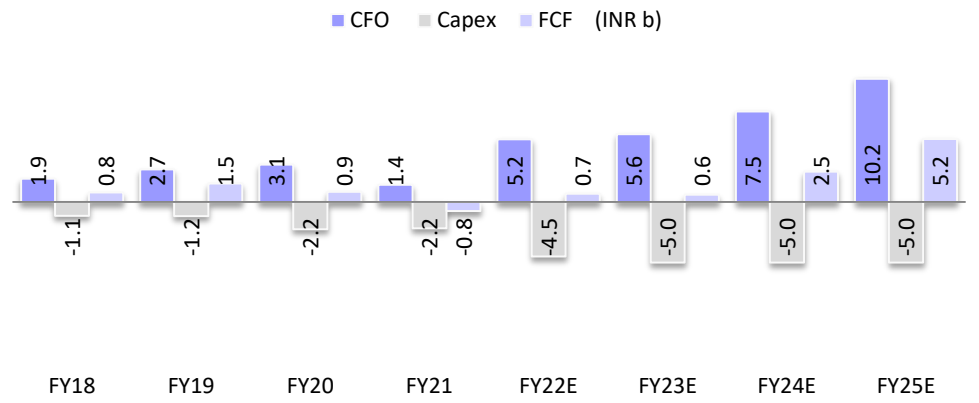
Source: Company, MOFSL

**Exhibit 67: RoCEs to improve substantially by FY25E**



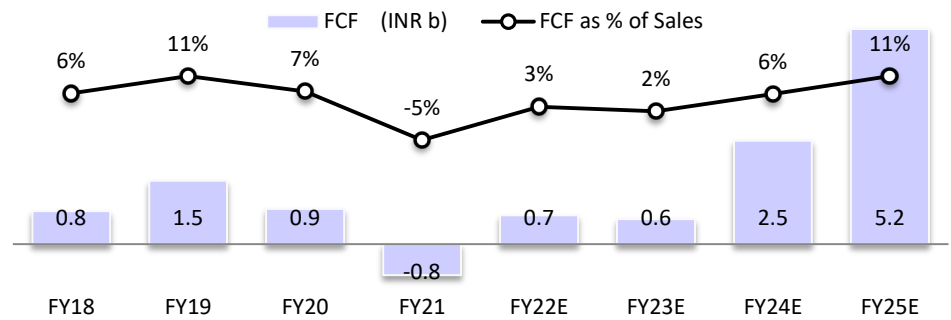
Source: Company, MOFSL

**Exhibit 68: Capex levels to moderate from FY23E**



Source: Company, MOFSL

**Exhibit 69: SONACOMS to return to being FCF positive by FY22E**



Source: Company, MOFSL

## Valuation and view

### Unique blend of increasing EV share, global scale, and strong financials

- **Best proxy on global megatrends of electrification and premiumization:** SONACOMS offers a clean global play on the megatrends of electrification and premiumization. Its product portfolio of differential gears and motors is on the right side of the Auto industry evolution, with a substantial increase in content in EV products. It is also well-prepared for EV-specific components such as traction motors, controllers, and 48V BSG. It also benefits from the structural premiumization trend observed across Automotive segments – PVs (SUVs, 4WDs, BEVs), CVs (MAVs), and tractors (higher HP, 4WDs). The BEV segment already contributed ~23% to revenues in 9MFY22 (v/s 14% in FY21) and 66.4% to the order book. We estimate 42%/47% of FY24E/FY25E revenues to come from the BEV segment.
- **Unique positioning of increasing EV sales, global scale, and strong financial profile:** SONACOMS' unique positioning is driven by a) a sizeable and increasing presence in EVs, b) global scale and presence, c) an expanding customer base, and d) a strong financial profile. It is the dominant player in the Indian Differential Gears market and has been gaining market share globally in key product segments – BEV differential assemblies (12% market share in 1HCY21 v/s 8.7% in CY20), differential gears (6.3% in CY21 v/s 5% in CY20), and starter motors (4.6% in CY21 v/s 3% in CY21). More importantly, SONACOMS is a truly global player with a presence across the key markets of China (~11% of FY21 revenues), the EU (~27%), North America (~36%), and RoW (~1%). It has nearly doubled its customer base in last five years to ~50 customers (from 22 customers) through new customer additions and the acquisition of Comstar (10 new customer additions).
- **Investing in R&D for future growth:** SONACOMS' approach is to own the technology to capture maximum value and offer the best products to its customers. It invests an average of 3–4% of sales in R&D (FY21 was higher at ~6%). Its technology roadmap is focused on developing new products that enable an increase in share from EVs and reduce dependence on ICE vehicles. Additionally, it aims to capitalize on the electrification opportunity at both ends of the power spectrum and eventually offer both product categories to all of the market segments. It is among the few players that are well-placed to combine their motor and driveline capabilities to offer integrated drive units, which have three key components: differential assemblies, high-voltage traction motors, and high-voltage inverters.
- **Strong growth ahead:** SONACOMS is geared for faster growth than the underlying industry, driven by a) a content increase in the existing portfolio; b) market share gains in North America, Europe, and China; and c) new products such as traction motors, controllers, and BSG. We estimate a revenue/EBITDA/PAT CAGR of 33%/35%/43% over FY21–FY25 and RoCE expansion of 11.2pp (over FY21) to ~25.8% by FY25E.
- **Valuation and view:** SONACOMS offers a unique play on the global electrification disruption, with a strong order book in hand and visibility for a sharp increase in contribution from the EV segment. This – coupled with its

focus on two product segments, global scale and presence, and expanding customer base – is testimony to its capabilities and strong positioning in its product segments. This translates into strong earnings growth and very healthy capital efficiency. However, valuations at 77.3x/51x FY23E/FY24E consol EPS largely factor in these positives. We initiate coverage with a Neutral rating and TP of INR625 (~50x FY24E consol. EPS).

**Exhibit 70: Comparative valuations – MOFSL Auto Coverage Universe**

Auto OEM's	Rating	Mcap (INR b)	CMP (INR)	TP (INR)	P/E (x)		EV/EBITDA (x)		PB (x)		FY23 Yield (%)		EPS CAGR (%) FY21-23E
					FY22E	FY23E	FY22E	FY23E	FY22E	FY23E	Div	FCF	
Bajaj Auto	Neutral	1,022	3,531	3,500	19.7	17.8	15.1	13.1	3.9	3.9	4.5	3.7	8.8
Hero MotoCorp	Buy	507	2,536	3,150	19.0	15.5	10.9	8.7	3.3	3.2	5.3	6.1	4.9
TVS Motor	Neutral	293	618	625	32.4	22.7	15.9	12.2	6.0	5.0	0.9	4.3	45.4
Eicher Motors	Buy	706	2,586	3,050	39.1	24.3	28.1	18.8	5.6	4.7	1.0	4.4	44.8
Maruti Suzuki	Buy	2,511	8,312	10,300	76.1	34.0	39.2	20.7	4.7	4.4	1.4	2.2	30.7
M&M	Buy	945	791	1,125	19.8	17.4	14.0	11.6	1.2	1.1	1.3	5.1	16.1
Tata Motors	Buy	1,739	454	600	-14.2	20.1	8.1	4.4	4.0	3.4	0.0	12.7	533.9
Ashok Leyland	Buy	349	119	165	-170.9	30.4	53.2	14.8	5.3	4.9	1.7	7.7	LTP
Escorts	Neutral	227	1,852	1,800	24.3	24.1	20.2	20.2	3.3	2.4	0.4	3.2	-5.6
<b>Auto Ancillaries</b>													
Bharat Forge	Buy	316	678	965	33.2	23.6	18.6	13.9	5.2	4.4	0.9	5.4	290.0
Exide Industries	Buy	127	149	230	15.8	11.7	8.2	6.9	1.7	1.0	2.1	7.1	19.3
Amara Raja	Neutral	96	561	685	17.0	13.2	8.5	6.7	2.1	1.9	2.7	4.4	5.8
BOSCH	Neutral	464	15,748	17,650	37.7	28.1	28.2	20.0	4.3	3.9	0.8	2.0	29.2
Endurance Tech	Buy	186	1,319	1,850	39.6	27.0	19.3	14.1	4.8	4.2	0.9	2.1	16.4
Motherson Sumi	Buy	475	150	210	37.2	17.6	8.7	5.5	3.5	3.1	1.5	8.9	58.6
Mahindra CIE	Buy	74	195	300	13.6	11.1	8.0	6.2	1.4	1.3	1.5	7.4	149.1
CEAT	Buy	39	976	1,400	71.0	17.0	8.9	6.2	1.2	1.1	1.2	4.5	-29.1
Balkrishna Ind	Neutral	352	1,824	2,320	25.3	21.9	17.3	14.3	5.1	4.4	1.4	1.4	16.8
MRF	Neutral	279	65,716	66,500	41.6	27.7	12.0	9.4	2.0	1.9	0.3	-0.3	-11.2
Apollo Tyres	Buy	106	185	275	15.6	10.4	5.9	4.6	0.9	0.8	2.4	13.4	24.4
<b>Sona BLW</b>	<b>Neutral</b>	<b>364</b>	<b>636</b>	<b>625</b>	<b>115.5</b>	<b>77.3</b>	<b>66.6</b>	<b>47.6</b>	<b>20.2</b>	<b>16.9</b>	<b>0.3</b>	<b>0.2</b>	<b>44.7</b>

Source: MOFSL

**Exhibit 71: Comparative valuations – global peers**

Company Name	Market Cap (USD b)	CAGR (CY20-23E)	CAGR (CY20-23E)	ROE (%)			PE (x)		
		Rev	PAT	CY21	CY22	CY23	CY21	CY22	CY23
<b>Sona BLW</b>	<b>5</b>	<b>36.3</b>	<b>47.9</b>	<b>20.5</b>	<b>23.8</b>	<b>29.2</b>	<b>115.5</b>	<b>77.3</b>	<b>51.0</b>
Aptiv	36	17.8	-0.6	9.0	13.0	15.7	51.3	30.9	21.0
CATL	195	87.8	85.5	17.2	23.2	25.3	95.7	55.1	38.6
Sanhua	12	26.2	28.9	16.3	18.8	19.9	40.9	31.2	25.5
Hota	1	22.5	LTP	8.5	12.6	14.0	36.8	22.0	18.8
TE connectivity	46	11.9	LTP	22.2	21.4	22.1	21.9	19.6	17.6
Shenzhen Innovance	27	38.5	LTP	24.1	24.0	24.9	51.2	40.3	31.8
Valeo	7	9.7	LTP	4.7	13.4	18.9	35.0	11.5	7.2
Borg Warner	10	21.8	38.1	11.5	14.3	15.1	10.7	9.1	7.4
Nidec	51	8.0	42.4	12.2	12.7	14.3	47.9	39.8	31.8
Sai Microelectronics Inc	3	51.2	53.0	2.8	6.7	10.5	90.9	46.4	28.7
WEG SA	24	20.7	23.3	27.1	25.4	27.2	35.5	32.9	27.4
Jiangsu Guomao Reducer	3	33.9	LTP	16.4	18.5	20.3	34.4	25.9	19.5

Source: Bloomberg, MOFSL

## Management profile



**Sunjay Kapur** is the Chairman and Non-Executive Director of SONACOMS. He has over 21 years of experience in the Automotive industry. He has also served as Director on the boards of various companies and was Managing Director of Sona Koyo Steering Systems Limited (now JTKET India Limited).



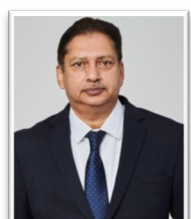
**Vivek Vikram Singh** is the Managing Director and Group Chief Executive Officer of SONACOMS. He has over 15 years of experience, of which six years is in the Automotive industry. He is *inter alia* responsible for overseeing the production of auto components and systems platforms in electric vehicles and hybrids, capital allocation decisions, and external shareholder management at the company.



**Rohit Nanda** is the Group Chief Financial Officer of SONACOMS. Prior to joining SONACOMS, he was associated with, Usha Martin Limited, MTAR Technologies Private Limited, Jindal Stainless Limited, SRF Limited, and Ranbaxy Laboratories Limited, among others. He joined SONACOMS on 11<sup>th</sup> April 2019.



**Sat Mohan Gupta** is the Director and Chief Executive Officer of Comstar Automotive. He is responsible for developing new products and achieving operational excellence in Comstar Automotive, among other things. He has over 35 years of experience in the Auto industry. He joined Comstar Automotive in 1997.

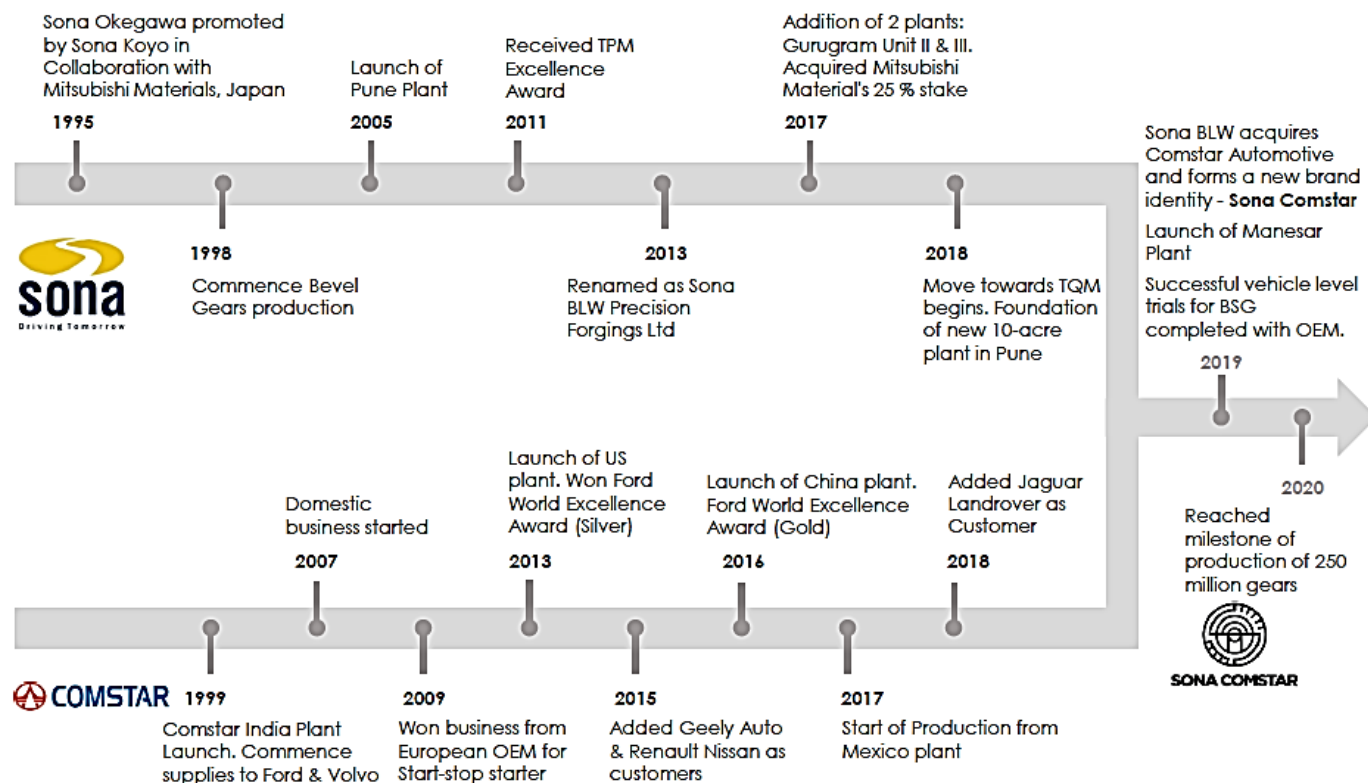


**Vadapalli Vikram Verma** is the Chief Executive Officer of the Driveline division of SONACOMS. He has significant experience in the Automotive industry. He is responsible for customer acquisitions and providing leadership for operational excellence in SONACOMS, among other responsibilities. Prior to joining SONACOMS, he worked with Sona Steering Systems Limited (now JTKET Limited). He joined SONACOMS on 26<sup>th</sup> April 2007.



**Kiran Manohar Deshmukh** is the Chief Technology Officer. He holds a bachelor's degree of technology in metallurgical engineering from the Indian Institute of Technology, Bombay. He has significant experience in automotive components manufacturing and has worked in the areas of manufacturing, process control, and design, among others. He was honored with the Ashoka Award by the Indian Society for Quality in 2006. In his capacity, he is responsible for the development of new technology partnerships and building competencies in manufacturing excellence in SONACOMS. He joined SONACOMS on 1<sup>st</sup> July 2019.

**Exhibit 72: SONACOMS' corporate journey**



Source: Company, MOFSL

**Bulls and Bear cases**

**Exhibit 73: Scenario analysis**

INR m	Base			Bull			Bear		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenues	21,238	28,650	39,667	21,238	30,773	45,685	21,238	26,526	34,074
Gr (%)	36	35	38	36	45	48	36	25	28
EBITDA	5,692	7,976	11,505	5,692	8,875	13,707	5,692	7,119	9,542
EBITDA Margins (%)	26.8	27.8	29.0	26.8	28.8	30.0	26.8	26.8	28.0
Dep+Int-OI	1,548	1,783	2,110	1548	1783	2110	1548	1783	2110
Tax rate (%)	23	23	23	23	23	23	23	23	23
PAT	3,212	4,800	7,281	3,212	5,496	8,988	3,212	4,136	5,760
EPS (INR)	6	8	12	6	9	15	6	7	10
Gr (%)	40	49	52	40	71	64	40	29	39
Dividend	1	2	2	1	2	2	1	2	2
Networth	18,332	21,986	27,835	16250	21744	30729	16250	20383	26141
RoE (%)	20.5	23.8	29.2	21.9	28.9	34.3	21.9	22.6	24.8
Target PE (x)			50			60			40
<b>TP</b>			<b>625</b>			<b>925</b>			<b>395</b>
Upside CAGR (%)			-2			45			-38

**Remarks**

Strong pick-up in traction motors & BSG motor  
New orders in EVs

Weak CV upcycle, Slower growth in BEV revenue  
Weaker traction in 2W e-motors

Source: Company, MOFSL

**SWOT analysis**

- ❖ Strong R&D and technological capabilities
- ❖ Strong customer relationship, with track record of not losing a single customer in its history
- ❖ Focused approach on two product lines – driveline (gears and assemblies) and electrical business (starter, traction, and BSG motors); company could channelize its total energy on these two business lines

- ❖ Yet to see a breakthrough in BSG segment as entry barriers are very high
- ❖ E-2W Traction Motor business yet to scale up as it is yet to break through any mainstream players
- ❖ Weak presence in fastest growing Chinese EV market

- ❖ Low market share in fast-growing European and Chinese EV markets provides opportunity to grow faster than industry through market share gains
- ❖ Evolving Indian e2W/e3W market provides growth opportunity with traction motors and controllers
- ❖ BSG motors provide opportunity to capture hybrid PV market
- ❖ Forward integration to integrated driveline unit provides opportunity to increase content per vehicle

- ❖ Customer concentration
- ❖ Change in technological landscape could impact OEM/component players in fast-evolving EV market
- ❖ Starter Motor business at risk due to full electrification



## Key Risks

- **Risk to Electricals business:** Starter motors are not required in BEVs. The inability to adequately scale up traction motors for 2Ws and 4Ws could pose a serious threat to the Electricals business.
- **High customer concentration:** The Top 3 customers accounted for 45% of FY21 revenue and the Top 10 customers for ~80% of revenue. Any loss of customers or decline in the performances of key customers could significantly impact SONACOMS' revenue growth.
- **Changing technology evolution risk:** The EV technology and its components are in the evolutionary phase, and any rapid change in technology could alter the competitive landscape for OEMs and component suppliers. For instance, in-wheel motors may make differential assemblies redundant.
- **Policy risk:** Currently, EV programs across geographies are subsidized by their respective governments. The decline or removal of subsidies could slow electrification.

## Financials and valuation

Income Statement							(INR m)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
<b>Net operating income</b>	<b>12,241</b>	<b>14,277</b>	<b>12,201</b>	<b>15,663</b>	<b>21,238</b>	<b>28,650</b>	<b>39,667</b>
Change (%)		16.6	-14.5	28.4	35.6	34.9	38.5
Total Exp	8,786	10,155	8,947	11,253	15,546	20,674	28,162
<b>EBITDA</b>	<b>3,455</b>	<b>4,122</b>	<b>3,254</b>	<b>4,410</b>	<b>5,692</b>	<b>7,976</b>	<b>11,505</b>
EBITDA Margin (%)	29.0	28.9	26.7	28.2	26.8	27.8	29.0
Depreciation	612	722	782	969	1,434	1,621	1,934
<b>EBIT</b>	<b>2,843</b>	<b>3,400</b>	<b>2,472</b>	<b>3,441</b>	<b>4,258</b>	<b>6,355</b>	<b>9,571</b>
EBIT Margin (%)	23.2	23.8	20.3	22.0	20.1	22.2	24.1
Interest cost	214	198	269	325	194	175	193
Other Income	91	58	76	23	81	14	17
Non-recurring Exp/(Inc)	0	0	0	139	-133	0	0
<b>PBT after EO</b>	<b>2,720</b>	<b>3,260</b>	<b>2,279</b>	<b>3,000</b>	<b>4,277</b>	<b>6,193</b>	<b>9,395</b>
Effective Tax Rate (%)	37.0	34.7	2.7	28.3	22.5	22.5	22.5
<b>Reported PAT</b>	<b>1,715</b>	<b>2,129</b>	<b>2,217</b>	<b>2,152</b>	<b>3,315</b>	<b>4,800</b>	<b>7,281</b>
<b>Adj. PAT</b>	<b>1,715</b>	<b>2,129</b>	<b>2,217</b>	<b>2,251</b>	<b>3,212</b>	<b>4,800</b>	<b>7,281</b>
Change (%)		24.1	4.2	1.5	42.7	49.4	51.7

Balance Sheet							(INR m)
Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
<b>Sources of Funds</b>							
Share Capital	277	277	472	5,730	5,833	5,833	5,833
Reserves	10,666	12,322	11,308	7,309	12,499	16,153	22,002
<b>Net Worth</b>	<b>10,944</b>	<b>12,599</b>	<b>11,779</b>	<b>13,039</b>	<b>18,332</b>	<b>21,986</b>	<b>27,835</b>
Deferred Tax	1,544	1,523	1,077	1,260	1,260	1,260	1,260
Loans	1,331	1,353	2,614	3,052	2,500	2,500	3,000
Other non-current liabilities	180	182	534	721	721	721	721
<b>Capital Employed</b>	<b>13,998</b>	<b>15,658</b>	<b>16,004</b>	<b>18,073</b>	<b>22,814</b>	<b>26,468</b>	<b>32,816</b>
<b>Application of Funds</b>							
Gross Fixed Assets	3,332	4,261	5,494	6,395	10,527	15,727	20,727
Less: Depreciation	324	753	1,230	1,353	2,390	3,615	5,153
<b>Net Fixed Assets</b>	<b>3,008</b>	<b>3,509</b>	<b>4,264</b>	<b>5,042</b>	<b>8,137</b>	<b>12,112</b>	<b>15,574</b>
<b>Net Intangibles</b>	<b>4,417</b>	<b>4,814</b>	<b>4,629</b>	<b>5,366</b>	<b>4,970</b>	<b>4,573</b>	<b>4,177</b>
Capital WIP	194	266	896	832	1,200	1,000	1,000
Goodwill on consolidation	1,758	1,758	1,758	1,758	1,758	1,758	1,758
Investments	1,420	457	19	0	180	180	180
<b>Curr.Assets, L &amp; Adv.</b>	<b>5,873</b>	<b>6,202</b>	<b>6,940</b>	<b>8,750</b>	<b>11,253</b>	<b>12,771</b>	<b>18,332</b>
Inventory	1,885	1,838	1,962	3,056	3,491	4,317	5,977
Sundry Debtors	2,382	2,733	2,336	4,170	4,364	5,494	7,607
Cash & Bank Balances	435	615	1,673	276	2,101	1,398	2,794
Loans & Advances	301	1	5	15	58	78	109
Others	870	1,015	963	1,234	1,239	1,483	1,845
<b>Current Liab. &amp; Prov.</b>	<b>2,671</b>	<b>2,748</b>	<b>2,503</b>	<b>3,676</b>	<b>4,684</b>	<b>5,926</b>	<b>8,205</b>
Sundry Creditors	1,614	1,393	1,162	2,241	2,618	3,140	4,347
Other Liabilities	920	1,227	1,223	1,275	1,862	2,512	3,478
Provisions	137	128	118	159	204	275	380
<b>Net Current Assets</b>	<b>3,202</b>	<b>3,454</b>	<b>4,437</b>	<b>5,075</b>	<b>6,569</b>	<b>6,844</b>	<b>10,127</b>
Miscellaneous Expenditures		1,399	0				
<b>Application of Funds</b>	<b>13,998</b>	<b>15,658</b>	<b>16,004</b>	<b>18,073</b>	<b>22,814</b>	<b>26,468</b>	<b>32,816</b>

E: MOFSL Estimates

## Financials and valuation

### Ratios

Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
<b>Basic (INR)</b>							
EPS	61.9	76.8	47.0	3.9	5.5	8.2	12.5
EPS Growth (%)		24.1	-38.8	-91.6	40.2	49.4	51.7
Cash EPS	84.0	102.9	63.6	5.4	8.1	11.0	15.8
Book Value per Share	394.8	454.6	249.8	22.8	31.4	37.7	47.7
DPS	0.0	0.0	0.0	18.9	1.5	2.0	2.5
Payout (Incl. Div. Tax) %	0.0	0.0	0.0	504.1	25.9	23.9	19.7
FCF (INR/sh)	28.6	55.2	18.1	-1.3	1.2	1.0	4.3
<b>Valuation (x)</b>							
P/E	10.3	8.3	13.5	161.9	115.5	77.3	51.0
EV/EBITDA	5.0	4.3	9.5	83.3	65.2	46.6	32.2
EV/Sales	1.4	1.3	2.5	23.4	17.5	13.0	9.4
Price to Book Value	1.6	1.4	2.5	27.9	20.2	16.9	13.3
Dividend Yield (%)	0.0	0.0	0.0	3.0	0.2	0.3	0.4
FCF Yield (%)	4.5	8.7	2.8	-0.2	0.2	0.2	0.7
<b>Profitability Ratios (%)</b>							
RoE	15.7	18.1	18.2	18.1	20.5	23.8	29.2
RoCE (post-tax)	13.2	15.2	15.7	14.6	16.4	20.0	25.1
RoIC		16.9	17.3	16.2	18.2	22.8	28.1
<b>Turnover Ratios</b>							
Debtors (Days)	71	70	70	97	75	70	70
Inventory (Days)	56	47	59	71	60	55	55
Creditors (Days)	48	36	35	52	45	40	40
Working Capital (Days)	79	81	94	116	90	85	85
Asset Turnover (x)	0.9	0.9	0.8	0.9	0.9	1.1	1.2
<b>Leverage Ratio</b>							
Net Debt/Equity (x)	0.0	0.0	0.1	0.2	0.0	0.0	0.0

E: MOSFL Estimates

### Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021	2022E	2023E	2024E
Profit before Tax	2,720	3,260	2,279	3,000	4,277	6,193	9,395
Depreciation & Amort.	612	722	782	969	1,434	1,621	1,934
Direct Taxes Paid	-1,053	-1,164	-398	-528	-962	-1,393	-2,114
(Inc)/Dec in Working Capital	-504	-247	4	-2,070	331	-978	-1,886
<b>CF from Oper. Activity</b>	<b>1,922</b>	<b>2,689</b>	<b>3,092</b>	<b>1,427</b>	<b>5,193</b>	<b>5,604</b>	<b>7,504</b>
(Inc)/Dec in FA+CWIP	-1,128	-1,160	-2,239	-2,180	-4,500	-5,000	-5,000
<b>Free Cash Flow</b>	<b>794</b>	<b>1,529</b>	<b>853</b>	<b>-753</b>	<b>693</b>	<b>604</b>	<b>2,504</b>
Interest/dividend received	25	33	39	22	81	14	17
<b>CF from Inv. Activity</b>	<b>-702</b>	<b>-1,307</b>	<b>-9,487</b>	<b>-1,561</b>	<b>-4,239</b>	<b>-4,987</b>	<b>-4,984</b>
Inc/(Dec) in Debt	187	-249	1,320	504	-552	0	500
Interest Paid	-198	-175	-205	-246	-194	-175	-193
Dividends Paid	-1,257	-1,032	-1,532	-904	-859	-1,146	-1,432
<b>CF from Fin. Activity</b>	<b>-1,269</b>	<b>-1,456</b>	<b>7,083</b>	<b>-667</b>	<b>1,361</b>	<b>-1,321</b>	<b>-1,125</b>
<b>Inc/(Dec) in Cash</b>	<b>-49</b>	<b>-74</b>	<b>689</b>	<b>-800</b>	<b>2,315</b>	<b>-703</b>	<b>1,396</b>
Add: Beginning Balance	484	435	361	1,050	249	2,564	1,861
<b>Closing Balance</b>	<b>435</b>	<b>361</b>	<b>1,050</b>	<b>249</b>	<b>2,564</b>	<b>1,861</b>	<b>3,257</b>


E: MOFSL Estimates

## NOTES

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