



SONA COMSTAR

SMC Ranking
★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Automobile
Offer for sale (Shares)	180,412,371
Fresh Issue (Shares)	10,309,278
Net Offer to the Public	190,721,649
Issue Size (Rs. Cr.)	5435-5550
Price Band (Rs.)	285-291
Offer Date	14-Jun-21
Close Date	16-Jun-21
Face Value	10
Lot Size	51

Issue Composition

	In shares
Total Issue for Sale	190,721,649
QIB	143,041,237
NIB	28,608,247
Retail	19,072,165

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	67.30%
QIB	0.00%	24.52%
NIB	0.00%	4.90%
Retail	0.00%	3.27%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

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

Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- Credit Suisse Securities (India) Private Limited
- JM Financial Limited
- J.P. Morgan India Private Limited
- Nomura Financial Advisory and Securities (India) Private Limited

Name of the registrar

- KFin Technologies Private Limited

About the company

Incorporated in 1995, Sona BLW Precision Forgings Limited is one of the leading automotive technology companies in India. Sona Comstar designs, manufactures and supplies highly-engineered, mission-critical automotive systems and components to auto original equipment manufacturers (OEMs) across the US, Europe, India and China, for both electrified and non-electrified powertrain segments.

Strength

One of the leading manufacturers and suppliers to global EV markets: While Battery Electric Vehicle (BEV) sales as a percentage of total global vehicle sales was 3.3% in calendar year 2020, according to the Ricardo Report, Rs. 205.70 Crore representing 13.8% of the company income from sale of goods was derived from the BEV market for Fiscal 2021. As a percentage of its total sale of goods, its income from sale of goods to the BEV market has grown from 1.3% in Fiscal 2019 to 13.8% in Fiscal 2021. For Fiscal 2021, Rs. 1115.78 Crore representing approximately 74.9% of its income, from sale of goods was derived from sale of goods to BEV, hybrid/ micro-hybrid and power source neutral products.

One of the leading global companies and gaining market share, diversified across key automotive geographies, products, vehicle segments and customers: The company is among the top 10 auto-component manufacturers. In 2020, Sona Comstar was among the top 10 global players for the differential bevel gear segment and among the largest exporters of starter motors in India. The firm supplies its products across the countries such as India, US, Europe, and China. It has 9 manufacturing and assembly facilities across the USA, India (6), China, and Mexico.

Strong research and development and technological capabilities in both hardware and software development: The company has developed strong in-house capabilities to deliver evolving green technologies for future mobility, with an aggregate expenditure on R&D of Rs. 156.36 Crore during Fiscal Years 2019, 2020 and 2021. The company has developed strong in-house capabilities to deliver evolving green technologies for future mobility, with an aggregate expenditure on R&D of Rs. 156.36 Crore during Fiscal Years 2019, 2020 and 2021. It has developed the base software implementing global standards such as ASPICE, MISRA, AUTOSAR, and ISO26262. Its R&D capabilities are further supported by the intellectual property rights that it has in connection with its business. The company holds assignment of license rights in relation to eight patents in USA. It has been granted one patent in USA, one patent in China and one patent in the United Kingdom and awaits 21 patent approvals in India.

Strong business development with customer centric approach: As at March 31, 2021, it has been awarded 58 programs from 27 customers across its product portfolio, from customers in India and overseas, where the start of production was either during Fiscal Year 2021 or a period subsequent to Fiscal Year 2021. It has long-standing relationships of 15 years and more with 13 of its top 20 customers. Some of its key OEM customers include a global OEM of EVs, a North American passenger vehicle and commercial vehicles maker, Ashok Leyland, Daimler, Escorts, Mahindra & Mahindra, Mahindra Electric, Maruti Suzuki, Renault Nissan, Volvo and Volvo Eicher.

Strategies

“Electrification” – Capturing market opportunity in the growing EV space :

- Anticipating market shift to electric mobility, the company has developed its differential assemblies and differential gears with core design features that meet the demands of increasing vehicle electrification such as high power density, improved fuel efficiency and reduced weight.

- As at March 31, 2021, it had 11 EV program awards for production of differential assemblies and differential gears for supply to EV manufacturers across North America, Europe, China and India, of which five programs are currently under regular production. It expects to benefit from the growing trend towards electrified drive trains by further increasing its customer base and expanding its share of business with existing EV customers.
- The company successfully completed vehicle level demonstration of the 48V BSG system to selected global OEMs, and it is currently undergoing rigorous testing in compliance with international specifications. The company aims to remain at the forefront of providing technologically advanced hybridization solutions through expanding its customer base for and increasing the sales of its BSG hybrid motors globally.
- Since the company designs and manufactures traction motors and motor control units for electric vehicles, with PMSM motors for EV and hybrid PVs and BLDC motors for electric two-wheelers and electric three wheelers, it is well-positioned to benefit from the expected growth in the Indian EV market across all vehicle categories.

Increasing market share globally

- The company plans to expand its presence in China for supply of its micro-hybrid starter motors for PVs and LCVs as well as its 48V BSG systems for hybrid PVs, as it expects to benefit from China's growing position as a leading market for EV manufacturers.
- According to the CRISIL Report, a gradual shift in demand towards four-wheel-drive vehicles, particularly in the utility vehicle segment, will likely result in higher per-vehicle gear content. It expects this trend towards preference for multi-axle vehicles to significantly increase the demand for its differential gears and aim to achieve its growth objectives by capitalizing on this shift in market preference for multiple axle vehicles.
- Since it already manufactures electric drive motors and inverters for electric 2-wheelers and hybrid PVs, as well as differential assemblies for battery electric passenger vehicles, the company is in a unique position to integrate the three key constituents of the electric power train into a single matched unit, offering an efficient and compact solution to EV OEMs.

Continue to focus on R&D to develop new and innovative systems and components: The company aims to capture the growth trend in revenue realization per component with increasing electrification by continuously investing in R&D to develop and deliver new and innovative systems and components. With its customers continuously focusing on weight reduction in EVs to enhance the range, augment the vehicle's acceleration and improve overall efficiency, it has been developing solutions and alternatives for improving the power density and light weighting of its differential assemblies and EV Traction Motors (BLDC and PMSM) and motor control units through its R&D efforts. Although the core of its strategy is to continue to achieve growth organically through investment in its technological capabilities, business development skills and customer relationships, it continues to evaluate inorganic growth opportunities such as acquisitions and strategic alliances that may provide it with complementary technologies that have a similar financial profile.

Risk factors

- The business of the company is dependent on the performance of the automotive sector globally.
- The business of the company is largely dependent upon its top ten customers and the loss of such customers or a significant reduction in purchases by such customers will have a significantly adverse impact on its business.
- Growth of the Electric Vehicle market depends on the development and maintenance of the required charging infrastructure.
- Its business is subject to costs, risks and uncertainties, including those associated with laws and regulations in domestic and foreign jurisdictions in which it operates, tariffs and trade relations and international political conditions.

Peer comparison

Company	Net sales	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Bosch	9716.23	481.98	342.91	46.13	4.75	3327.14	10.00	15817.65	46652.01
Sundaram Clayton	20298.73	323.68	167.64	22.37	2.61	1435.63	5.00	3750.15	7587.34
Motherson Sumi	56951.31	1039.13	3.39	72.89	6.21	39.77	1.00	247.10	78032.56
Mahindra CIE	6050.11	106.43	1.42	152.68	1.67	129.49	10.00	216.80	8217.41
Varroc Engineer	11302.75	-631.91	0.00	0.00	1.90	198.18	1.00	376.80	5756.99
Sona BLW Precision Forgings	2088.40	286.89	3.69	78.89	10.58	27.50	10.00	291.00	16973.73

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.291, the stock is priced at pre issue P/E of 77.49x on its FY21 EPS of Rs. 3.76. Post issue, the stock is priced at a P/E of 78.89x on its EPS of Rs. 3.69. Looking at the P/B ratio at Rs. 291 the stock is priced at P/B ratio of 12.79x on the pre issue book value of Rs.22.76 and on the post issue book value of Rs. 27.50 the P/B comes out to 10.58x.

On the lower end of the price band of Rs.285 the stock is priced at pre issue P/E of 75.89x on its FY21 EPS of Rs. 3.76. Post issue, the stock is priced at a P/E of 77.26x on its EPS of Rs. 3.69. Looking at the P/B ratio at Rs.285, the stock is priced at P/B ratio of 12.52x on the pre issue book value of Rs. 22.76 and on the post issue book value of Rs. 27.50, the P/B comes out to 10.36x.

Industry overview

Production of passenger vehicles (PVs) in India recorded a healthy growth of 5.2% CAGR between Fiscals 2016 and 2019 due to a spurt in domestic and exports demand. Domestic demand was driven by expansion in the addressable market, development of infrastructure, and stable cost of vehicle ownership, as crude oil prices remained low except in the few months when output was reduced due to sanctions imposed on Iran. In Fiscal 2020, lower private consumption and inventory adjustment because of a change in emission norms from BS IV to BS VI, liquidity crisis, and the onset of COVID-19 resulted in a decline of 15% in production. Domestic sales fell 18%, whereas exports remained flat. The Indian PV market is focused on the domestic market, with over 85% demand stemming from the domestic market in Fiscal 2021. The ratio of exports-to-production for the industry has been declining from 19% in Fiscal 2016 to 15% in Fiscal 2021. CRISIL Research estimates overall PV production to grow at a robust pace of 8% to 10% CAGR in the next five Fiscals and reach 4.9 million units by Fiscal 2026. Delhi has announced an EV policy that would provide purchase incentives of up to Rs. 0.15 million for the first 1,000 electric cars. The benefit would be provided in addition to FAME-2 policy benefits. The Telangana government is also providing 100% exemption of road tax and registration fee on purchase of the first 5,000 electric cars. The Tamil Nadu government is providing 100% exemption for battery-operated vehicles (BOVs). Such regional push will further enable adoption of EVs. Further individual tax payers are allowed to take a deduction on interest payments up to Rs. 150,000 towards electric vehicles under Section 80EEB. The benefit is available on EV loans sanctioned over April 1, 2019 till March 31, 2023 period. Such favorable tax laws are expected to encourage electric vehicle adoption for personal mobility.

Outlook

The company is a global player in critical auto components with a thrust on the EV segment. Despite growth in the top line, it suffered a setback in the bottom line for FY21. According to management, it suffered a setback in the bottom line for FY21 due to higher provisioning for depreciation, finance cost and rise in other costs of raw materials and other higher expenses due to pandemic. The auto sector as a whole has suffered a severe setback. On the flip side, considering the prospects of the company that are associated with the progress in the EV segment, the company would see good growth in a long run. Thus a long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	June 14, 2021
Bid/Offer Closing Date	June 16, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about June 21, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about June 22, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about June 23, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about June 24, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)
Revenue from operations	1,566.30	1,037.98	699.22
Total expenditure	1,125.28	795.71	499.24
Operating Profit	441.02	242.28	199.99
OPM%	56.77	65.87	48.53
Other Income	2.34	5.78	3.28
PBDIT	443.36	248.06	203.27
Depreciation	96.94	67.12	30.96
PBIT	346.42	180.94	172.31
Interest	32.52	25.98	17.76
PB associate, tax and exceptional item	313.90	154.97	154.55
Share of profit in associate	0.00	0.00	0.22
Profit after associate	313.90	154.97	154.76
Exceptional item	13.91	-232.05	0.00
Profit before tax	300.00	387.02	154.76
Tax	84.83	26.68	54.65
Profit After Tax	215.17	360.34	100.11

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-21	As on 31-Mar-20	As on 31-Mar-19
Asset			
Non-current assets			
Property, plant and equipment	344.90	284.51	178.35
Capital Work-in-Progress	82.14	58.14	13.17
Right-Of-Use Assets	159.27	141.94	40.51
Goodwill on consolidation (including assembled workforce)	175.81	175.81	0.00
Other Intangible Assets	536.62	462.92	72.39
Intangible assets under development	1.08	31.50	0.00
Financial Assets			
Investments	0.00	1.90	0.00
Loans	5.78	5.08	2.31
Other Financial Assets	0.00	0.09	3.81
Income tax assets (net)	18.67	29.14	1.12
Other Non-Current Assets	29.62	27.85	8.42
Total non-current assets	1353.88	1218.87	320.09
Current assets			
Inventories	305.56	196.24	67.78
Financial assets			
Investments	0.00	0.00	0.00
Trade receivables	416.99	233.63	152.10
Cash and cash equivalents	24.95	104.99	0.19
Bank balances other than (ii) above	2.63	62.31	25.41
Loans	1.51	0.49	0.02
Other financial assets	15.17	0.53	3.23
Other current assets	54.16	33.63	13.04
Total current assets	820.95	631.81	261.77
Total Assets	2174.83	1850.68	581.86
Assets of disposal group classified as held for sale	0.00	0.00	1050.69
Total Assets	2174.83	1850.68	1632.56
Non-current liabilities			
Borrowings	190.70	176.82	73.31
Lease liabilities	72.02	53.23	15.68
Other financial liabilities	0.12	0.12	0.12
Provisions	8.68	6.68	2.38
Deferred Tax liabilities (Net)	126.02	107.67	11.06
Total Non-Current Liabilities	397.54	344.53	102.55
Current liabilities			
Borrowings	114.50	84.61	38.91
Trade Payables – MSME	49.58	16.70	7.68
Trade Payables – Other than MSME	174.53	99.53	61.54
Lease liabilities	10.53	7.17	2.41
Other financial liabilities	82.88	92.27	102.74
Other current liabilities	17.08	11.04	12.09
Provisions	7.27	5.11	1.58
Other Current Liabilities	17.03	11.80	0.07
Total current liabilities	473.39	328.21	227.02
Assets of disposal group classified as held for sale	0.00	0.00	1126.78
Total current liabilities	870.93	672.74	1456.36
NET Worth	1303.90	1177.94	176.20
Net worth represented by:			
Share capital	572.98	47.15	27.72
Instruments entirely equity in nature	0.00	0.59	0.00
Other equity	730.92	1130.19	146.06
Non controlling interest	0.00	0.00	2.42
Total Networkth	1303.90	1177.94	176.20

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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