

### Company Overview

Sona BLW Precision Forgings Limited ("Sona Comstar") is one of India's leading automotive technology companies, designing, manufacturing and supplying highly engineered, mission critical automotive systems and components such as differential assemblies, differential gears, conventional and micro-hybrid starter motors, BSG systems, EV traction motors (BLDC and PMSM) and motor control units to automotive OEMs across US, Europe, India and China, for both electrified and non-electrified powertrain segments. According to the Ricardo Report, in calendar year 2020, Sona Comstar is among the top 10 players globally in the differential bevel gear market. They are also among the top 10 global starter motor suppliers based on their exposure to the PV segment. Sona Comstar has 9 manufacturing and assembly facilities across India, China, Mexico and USA, of which 6 are located in India, from where they supply their products to 6 out of the top 10 global PV OEMs, 3 out of the top 10 global CV OEMs and 7 out of the top 8 global tractor OEMs by volume.

### Objects of the issue

The net proceeds from the IPO will be utilized towards the following purposes;

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

### Investment Rationale

#### One of the leading global companies and gaining market share, diversified across key automotive geographies, products, vehicle segments and customers:

Company's capabilities in precision-forging technology has enabled them to become one of the top ten players globally in the differential bevel gear market in calendar year 2020 on the basis of overall volumes of differential bevel gears supplied to PVs, CVs and tractors. They are one of the 2 largest exporters of starter motors from India and expected to be among the top 10 global starter motor suppliers in calendar year 2020 based on their exposure to the PV segment. They have increased their global market share of differential gears and starter motors to 5% and 3%, respectively in calendar year 2020 and their global market share of BEV differential assemblies was 8.7% in calendar year 2020. Further, they are the largest manufacturer of differential gears for PV, CV and tractor OEMs in India, with an estimated market share of approximately 55% to 60%, 80% to 90% and 75% to 85%, respectively.

#### Strong research and development and technological capabilities in both hardware and software development:

Sona Comstar has developed strong in-house capabilities to deliver evolving green technologies for future mobility, with an aggregate expenditure on R&D of ₹156.35 crore during Fiscal Years 2019, 2020 and 2021. Their R&D expenditure amounted to ₹24.40 crore, ₹40.45 crore and ₹91.50 crore during Fiscal Years 2019, 2020 and 2021, respectively and constituted 1.7%, 3.3% and 5.8% as a percentage of their revenue from operations. In comparison, average spends of the top 10 listed auto component players was 0.9% over Fiscal 2018 to Fiscal 2020. A critical component of all electrified systems is embedded software. Of the R&D expenditure incurred during the Fiscal 2021, they invested ₹57.14 crore towards building software standards, systems, and solutions.

### Valuation and Outlook

SBPFL is one of a few companies globally, with the ability to design high power density EV systems handling high torque requirements with a lightweight design, while meeting stringent durability, performance and NVH specifications, enabling EV manufacturers to enhance the vehicle range, acceleration and overall efficiency. At the upper end of the price band, the offer is valued at 77.6 x its FY2021 EPS (considering the diluted equity), . The company commands excellent operating margins (28.9%, 26.7%, 28.2% in FY19, FY20, FY21, respectively) primarily on the back of high gross margins (averaged ~59% per annum in FY19-21). This is accompanied by a capital efficient business model with healthy return ratios (average FY19-20 RoCE, RoE at ~18-20%). Considering the significant amount of R&D and existing customer relations we believe the company is well equipped to cater to the fast growing EV powertrain segment, which requires significant technical expertise. Thus, we recommend SUBSCRIBE to the IPO for the long term.

### Issue Details

Offer Period	Jun 14th - 16th June, 2021
Price Band	INR.285 to INR.291
Bid Lot	51
Listing	BSE&NSE
Issue Size (no. of shares in mn)	190
Issue Size (INR. in bn)	55.5
Face Value	10

### Issue Structure

QIB	75%
Retail	10%
HNI	15%

BRLM	Credit Suisse Securities (India) Private Limited, J.P. Morgan India Private Limited, JM Financial Consultants Private Limited, Kotak Mahindra Capital Company Limited and Nomura Financial Advisory And Securities (India) Pvt Ltd
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Registrar	KFin Technologies Private Limited
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### Particulars Pre Issue % Post Issue %

Promoter	100	67.3
Public	0	32.7
<b>Total</b>	<b>100</b>	<b>100</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



## Income Statement (In mn)

Particulars	FY19	FY20	FY21
<b>Revenue</b>			
Revenue from operations	6,992	10,380	15,663
<b>Total revenue</b>	<b>6,992</b>	<b>10,380</b>	<b>15,663</b>
<b>Expenses</b>			
Raw Materials Consumed	1,928	4,424	7,095
Changes in inventories of finished goods and work in progress	122	32	(642)
Purchase of Stock in Trade	-	-	-
Excise Duty	-	-	-
Employee benefit expenses	490	1,027	1,474
Other expenses	2,452	2,474	3,325
<b>Total Operating expenses</b>	<b>4,992</b>	<b>7,957</b>	<b>11,253</b>
<b>EBITDA</b>	2,000	2,423	4,410
Depreciation and amortisation expense	310	671	969
Other income	33	58	23
<b>EBIT</b>	<b>1,723</b>	<b>1,809</b>	<b>3,464</b>
Finance costs	178	260	325
Share in Profit/(Loss) of Joint Ventures	2	2,321	(139)
<b>PBT</b>	<b>1,548</b>	<b>3,870</b>	<b>3,000</b>
Current tax	472	365	666
Deferred Tax charge	75	(98)	182
<b>Total tax</b>	<b>546</b>	<b>267</b>	<b>848</b>
<b>PAT</b>	1,001	3,603	2,152
<b>Diluted EPS</b>	<b>17.5</b>	<b>62.9</b>	<b>37.6</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash Flow from operating activities	1,546	2,533	1,427
Cash flow from investing activities	2,041	(9,542)	(1,561)
Cash flow from financing activities	(3,461)	7,668	(667)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>126</b>	<b>660</b>	<b>(800)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>264</b>	<b>390</b>	<b>1,050</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>390</b>	<b>1,050</b>	<b>249</b>

Source: RHP, BP Equities Research

## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
<b>Liabilities</b>			
Share Capital	277	472	5,730
Other Equity	1,461	11,307	7,309
<b>Net worth</b>	<b>2,948</b>	<b>3,193</b>	<b>3,578</b>
Long-Term Borrowings	890	2,301	2,627
Long-Term Provisions	24	67	87
Other Non Current Liabilities	1	1	1
<b>Total Non Current Liabilities</b>	<b>915</b>	<b>2,369</b>	<b>2,715</b>
Trade payables	692	1,162	2,241
current tax liability	1	118	170
Deferred Tax Liabilities	111	1,077	1,260
Borrowings	389	846	1,145
Other Financial Liabilities	1,027	923	829
Lease Liabilities	24	72	105
Other current liabilities	121	110	171
Short Term Provisions	16	51	73
<b>Total Current Liabilities</b>	<b>2,381</b>	<b>4,359</b>	<b>5,994</b>
<b>Total liabilities</b>	<b>16,325</b>	<b>18,506</b>	<b>21,748</b>
<b>Assets</b>			
Tangible Assets	1,784	2,845	3,449
Right of Use Assets	405	1,419	1,593
Capital work in Progress	132	581	821
Good will	-	1,758	1,758
Intangible Assets	724	4,629	5,366
Intangible Assets Under Development	-	315	11
Financial Assets	38	1	
Loans	23	51	58
Income tax assets (net)	11	291	187
Other non-current assets	84	278	296
<b>Total Non current assets</b>	<b>3,201</b>	<b>12,170</b>	<b>13,539</b>
Inventories	677	1,962	3,056
Trade Receivables	1,521	2,336	4,170
Cash and Bank Balances	2	1,050	249
Other current assets	130	336	542
Bank Balances	254	623	26
Other Financial Assets	32	5	152
Loans	0	5	15
<b>Total Current Asset</b>	<b>2,618</b>	<b>6,318</b>	<b>8,209</b>
Assets of Disposable group held for sale	10,507	-	-
Net Current Assets	237	1,959	2,215
<b>Total Assets</b>	<b>5,820</b>	<b>18,507</b>	<b>21,748</b>

Source: RHP, BP Equities Research

## Key Risks

- ⇒ Business is dependent on the performance of the automotive sector globally, including in SBPFL's key markets such as US, Europe, India and China. Any adverse changes in the conditions affecting these markets can adversely impact the business, results of operations and financial condition.
- ⇒ SBPFL may not realize all of the revenue expected from its new and incremental business backlog and does not have firm commitment agreements with customers.
- ⇒ The COVID-19 pandemic, or a similar public health threat, could adversely affect the business, financial condition, and results of operations.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001  
BP Wealth Management Pvt. Ltd.  
CIN No: U67190MH2005PTC154591  
BP Equities Pvt. Ltd.  
CIN No: U67120MH1997PTC107392