

JUNE 11, 2021

## IPO Note

**SONA BLW PRECISION FORGINGS LTD****NOT RATED**

*(Note: All the information in this note is taken from RHP)*

**Offer Details**

The offer consists of fresh issue of equity shares aggregating up to Rs300 cr and offer for sale aggregating up to Rs5,250 cr. The price band is in the range of Rs.285-291/share.

**Objects of the offer**

Company proposes to utilize the net proceeds from the fresh issue towards funding the following objects: 1. repayment and pre-payment of identified borrowings in full availed by the company and 2. general corporate purposes. Further, the company expects that the listing of the equity shares will enhance its visibility and brand image among their existing and potential customers. The selling shareholder (Singapore VII Topco III Pte. Ltd.) will be entitled to the proceeds from the offer for sale. The company will not receive any proceeds from the offer for sale.

**Details of the offer**

Particulars	Details
Price band (Rs/share)	285-291
Opening date of the Issue <sup>^</sup>	14th June, 2021
Closing date of the issue	16th March, 2021
<b>No. of shares pre-issue (nos. crs)</b>	<b>57.3</b>
Fresh Issue (nos. crs)*	1.0
Offer for sale (nos. crs)*	18.0
<b>No. of shares post-issue (nos. crs)*</b>	<b>58.3</b>
Fresh Issue size (Rs Cr)*	300
Offer for sale size (Rs Cr)*	5,250
<b>Issue size (Rs Cr)*</b>	<b>5,550</b>
Face Value (Rs/ share)	10
Bid Lot	51 equity share and in multiples of 51 equity shares thereafter
<b>Book Building</b>	
QIBs (Including Anchor)	75%
Non-Institutional	15%
Retail	10%
Book Running Lead managers (BRLM)	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
Registrar to the issue	KFin Technologies Private Limited

Source: Company's RHP, \* Based on upper price band;

<sup>^</sup>The Anchor Investor Bidding Date shall be one Working Day prior to the Bid/Offer Opening Date

**Shareholding Pattern**

	Pre-Issue	Post-Issue <sup>^</sup>
Promoter holding (%)	100.00	67.30
Public holding (%)	0.00	32.70
Total (%)	100.00	100.00

Source: Company's RHP, <sup>^</sup>Based on upper price band






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## Business Overview

Sona BLW Precision Forgings Ltd 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 (Belt-driven starter generator) systems, EV (electric vehicle) traction motors (BLDC - Brushless direct current and PMSM - Permanent magnet synchronous motor ) and motor control units to automotive OEMs (Original equipment manufacturer) across US, Europe, India and China, for both electrified and non-electrified powertrain segments. According to the Ricardo Report, in calendar year 2020, the company was among the top ten players globally in the differential bevel gear market on the basis of overall volumes of differential bevel gears supplied to PVs (passenger vehicle), CVs (commercial vehicle) and tractors. Sona BLW Precision Forgings Ltd is also amongst the top ten global starter motor suppliers based on their exposure to the PV segment and market share in calendar year 2020, according to the Ricardo Report.

The company has been gaining global market share across products to reach a share of approximately 5.0% for differential bevel gears, 3.0% for starter motors and 8.7% for BEV (Battery Electric Vehicle) differential assemblies, in calendar year 2020, according to the Ricardo Report. Sona BLW Precision Forgings Ltd has nine manufacturing and assembly facilities across India, China, Mexico and USA, of which six are located in India, from where they supply their products to six out of the top ten global PV OEMs, three out of the top ten global CV OEMs and seven out of the top eight global tractor OEMs by volume, according to the Ricardo Report. The company is a global supplier and it derived 75.0% of its income from sale of goods with end-use in the overseas markets, including 36.1% in North America, 26.5% in Europe and 7.6% in China and 25.0% of its income was derived from sale of goods with end-use in India, for Fiscal 2021.

### Company's products and their end-use application across various powertrains and vehicle segments.

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's RHP

### Sales break-up - Product-wise (%)

	FY19	FY20	FY21
Differential Assembly	4.5	5.6	17.6
Differential Gears	41.5	34.8	27.8
Micro Hybrid Starter Motors	17.0	29.5	26.7
Conventional Starter Motors	33.8	25.9	23.8
Other Gears	2.3	3.3	2.8
Others	0.9	0.9	1.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source – Company's RHP; based on sales figure provided in Pro-forma Consolidated Financial Information

### Sales break-up - Powertrain-wise (%)

	FY19	FY20	FY21
Battery EV	1.3	2.0	13.8
Micro Hybrid / Hybrid	17.0	29.5	26.7
Power Source Neutral	47.0	41.7	34.4
ICE Dependent	34.7	26.8	25.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source – Company's RHP; based on sales figure provided in Pro-forma Consolidated Financial Information

### Key Managerial Personnel

Name	Designation	Background
Mr. Vivek Vikram Singh	Managing Director and Group Chief Executive Officer	He holds a bachelor's degree in technology (computer science and engineering) from HBTI, Kanpur and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. He has over 15 years of experience, including six years of experience in the automotive industry. He was recognized as one of the India's 40 under forty hottest business leaders by the Economic Times in 2018. He joined this company on July 1, 2016.
Mr. Rohit Nanda	Group Chief Financial Officer	He is a qualified chartered accountant and has significant experience in diverse industries including steel, engineering, pharma, chemical and industrial goods, among others. Prior to joining this company, he was associated with, among others, Usha Martin Limited, MTAR Technologies Private Limited, Jindal Stainless Limited, SRF Limited and Ranbaxy Laboratories Limited. He joined this company on April 11, 2019.
Mr. Ajay Pratap Singh	Vice President (Legal), Company Secretary and Compliance Officer	He holds a bachelor's degree in law from the University of Delhi and is also a qualified company secretary. He also attended a certificate course in competition law from the Indian Institute of Corporate Affairs under the aegis of the Ministry of Corporate Affairs. Prior to joining this company, he has worked with Hindustan Construction Company Limited and was also associated with Nuvoco Vistas Corporation Limited (previously known as Lafarge India Limited), Jaypee Hotels Limited, Hero Motors Limited and Abhipra Capital Limited. He joined this company on February 24, 2020.
Mr. Sat Mohan Gupta	Director and Chief Executive Officer of Comstar Automotive	He completed a master's degree course in commerce from the University of Delhi and is a qualified cost and management accountant. He has over 35 years of experience in the auto industry. He joined Comstar Automotive in 1997. He was designated as the chief executive officer of Comstar Automotive on August 20, 2012.

Name	Designation	Background
Mr. Kiran Manohar Deshmukh	Chief Technology Officer	He holds a bachelor's degree of technology in metallurgical engineering from the Indian Institute of Technology, Bombay. Prior to joining this company, he has worked with Bharat Gears Limited where during the term of his employment, he attended the training program at Gleason Works. He has also worked with Sona Koyo Steering Systems Limited as the deputy managing director and executive vice chairman, CQ Workskills Services Private Limited (now Sona Skill Development Centre Limited) as the managing director, SKAP Forging Private Limited as a director. He joined this company on July 1, 2019.
Mr. Vadapalli Vikram Verma	Chief Executive Officer of driveline division	He holds a bachelor's degree of technology in mechanical engineering from the Karnataka Regional Engineering College, Surathkal. Prior to joining this company, he has worked with Sona Steering Systems Limited (now JTKET Limited). He joined this company on April 26, 2007.

Source: Company's RHP

## Strengths

### One of the leading manufacturers and suppliers to global EV markets

While BEV sales as a percentage of total global vehicle sales was 3.3% in calendar year 2020, according to the Ricardo Report, Rs.205.7cr representing 13.8% of company's income from sale of goods was derived from the BEV market for Fiscal 2021. According to the Ricardo Report, among the available propulsion technologies, BEV has been the fastest growing at CAGR of approximately 46% between calendar years 2015 to 2020. The momentum for EVs is being driven by the global recognition of the need for clean mobility, norms, targets and incentives provided by several governments to promote EV adoption, improving affordability and performance of EVs, rapid expansion of EV charging infrastructure and OEM plans for electrification.

The company has been supplying differential gears in the global EV market since April 2016 and differential assemblies since 2018, and according to the Ricardo Report, their global market share of BEV differential assemblies in calendar year 2020 was 8.7%. The company also 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. Company's high power density EV systems and ability to engage with customers from concept to testing, has resulted in them being awarded 15 development programs for EV systems and components by 10 different customers as at March 31, 2021, of which active production process has commenced for eight programs and regular production is yet to commence for seven programs.

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

Sona BLW Precision Forgings has nine manufacturing and assembly facilities, of which six are located in India and one each in China, Mexico and USA, as well as eight warehouses across India, USA, Germany and Belgium. Further, the company aims to mitigate the impact of cyclical downturns in the automotive industry through geographic diversification, together with distributed presence in PV, CV and OHV (Off-highway vehicle) segments. The company is not dependent on a single product, vehicle segment, customer or geography. Sona BLW Precision Forgings is also focused on diversification of their business through the growth of new and existing customer relationships.

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

Sona BLW Precision Forgings has developed strong in-house capabilities to deliver evolving green technologies for future mobility. Company's R&D expenditure constituted 1.7%, 3.3% and 5.8% as a percentage of their revenue from operations for Fiscal Years 2019, 2020 and 2021, respectively. As at March 31, 2021, the company had 186 on-roll employees engaged in R&D activities, representing approximately 15.4% of their total on-roll manpower. A critical component of all electrified systems is embedded software. Of the R&D expenditure incurred during the Fiscal Year 2021, the company invested Rs57.1cr towards building software standards, systems, and solutions. Further, for driveline systems and components, the company has developed proprietary gear design software.

### **Strong business development with customer centric approach**

As at March 31, 2021, the company has been awarded 58 programs from 27 customers across their 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. Sona BLW Precision Forgings has long-standing relationships of 15 years and more with 13 of its top 20 customers.

### **Consistent financial performance with industry leading metrics**

According to the CRISIL Report, as compared to the publicly listed top ten auto-component manufacturers in India by market capitalization, Sona BLW Precision Forgings is the highest in terms of operating EBITDA margin, PAT margin, ROCE and ROE and one of the top ten auto-component manufacturers in India in terms of operating EBITDA and profit before tax in Fiscal Year 2020.

## **Strategies**

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

The global trend towards electrification of vehicles continues to expand. Company's product offerings span all types of electrified powertrains. The Ricardo Report states that according to the Deloitte 2019 Global Automotive Supplier Study, electric drivetrain is expected to be the fastest growing segment of the entire automotive supply chain. As at March 31, 2021, the company 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. Sona BLW Precision Forgings expects to benefit from the growing trend towards electrified drivetrains by further increasing its customer base and expanding their share of business with existing EV customers.

OEMs and suppliers are competing to develop and market new and alternative technologies that can meet future Corporate Average Fuel Efficiency (“CAFÉ”) norms, leading to a growth in the hybrid vehicle market. The company is responding, in part, to such shift in market demand, through the development of 48V BSG motor for hybrid PVs with features that enable fuel savings as well as reduction in CO2 emissions which will help to meet the CAFE norms. The company has 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. Sona BLW Precision

Forgings aims to remain at the forefront of providing technologically advanced hybridization solutions through expanding its customer base for and increasing the sales of their BSG hybrid motors globally.

With the growing market shift towards electrification of vehicles, the demand for hybrid and battery electric PVs, electric two-wheelers and electric three-wheelers is growing rapidly in India as well as globally. Since the company designs and manufacture 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**

As part of the strategy, the company intends to penetrate the European market for supplying differential assemblies and differential gears, where they currently have limited market share for their driveline products. Company also plans to expand its presence in China for supply of their micro-hybrid starter motors for PVs and LCVs (Light commercial vehicle) as well as their 48V BSG systems for hybrid PVs, as they expect to benefit from China's growing position as a leading market for EV manufacturers. According to the Ricardo Report, Sona BLW Precision Forgings is among the limited number of players who is well placed to combine their motor and driveline capabilities to offer a compelling value proposition to its EV customer base.

### **Continue to focus on R&D to develop new and innovative systems and components**

Sona BLW Precision Forgings 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. Company has been developing solutions and alternatives for improving the power density and light weighting of their differential assemblies and EV Traction Motors (BLDC and PMSM) and motor control units through the R&D efforts. The company has developed extensive in-house capability to develop embedded systems and application software, along with integration capabilities to offer its customers a complete solution. Although the core of the company's strategy is to continue to achieve growth organically through investment in their technological capabilities, business development skills and customer relationships, Sona BLW Precision Forgings continues to evaluate inorganic growth opportunities such as acquisitions and strategic alliances that may provide them with complementary technologies that have a similar financial profile.



## Financials

### Restated Consolidated Summary Statement of Assets and Liabilities

Y/E March (Rs. In Crores)	FY19	FY20	FY21
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	178	285	345
Capital Work in progress	13	58	82
Right-of-use assets	41	142	159
Goodwill on consolidation (including assembled workforce)	-	176	176
Other intangible assets	72	463	537
Intangible assets under development	-	32	1
Financial assets	-	-	-
Investments	-	2	-
Loans	2	5	6
Other Financial assets	4	0	-
Income tax assets (net)	1	29	19
Other non-current assets	8	28	30
<b>Total Non-current assets</b>	<b>320</b>	<b>1,219</b>	<b>1,354</b>
<b>Current Assets</b>			
Inventories	68	196	306
Financial assets	-	-	-
Trade receivables	152	234	417
Cash and cash equivalents	0	105	25
Other bank balances	25	62	3
Loans	0	0	2
Other Financial assets	3	1	15
Other current assets	13	34	54
<b>Total Current Assets</b>	<b>262</b>	<b>632</b>	<b>821</b>
Assets of disposal group classified as held for sale	1,051	-	-
<b>Total Assets</b>	<b>1,633</b>	<b>1,851</b>	<b>2,175</b>
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Equity share capital	28	47	573
Instruments entirely equity in nature	-	1	-
Other equity	146	1,130	731
Non-controlling interest	2	-	-
<b>Total equity</b>	<b>176</b>	<b>1,178</b>	<b>1,304</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Financial liabilities			
Borrowings	73	177	191
Lease liabilities	16	53	72
Other Financial Liabilities	0	0	0
Provisions	2	7	9
Deferred tax liabilities (Net)	11	108	126
<b>Total Non-current liabilities</b>	<b>103</b>	<b>345</b>	<b>398</b>
<b>Current liabilities</b>			
Financial Liabilities			
Borrowings	39	85	114
Trade payables	69	116	224
Lease liabilities	2	7	11
Other financial liabilities	103	92	83
Other current liabilities	12	11	17
Provisions	2	5	7
Current tax liabilities (net)	0	12	17
<b>Total Current liabilities</b>	<b>227</b>	<b>328</b>	<b>473</b>
Liabilities of disposal group classified as held for sale	1,127	-	-
<b>Total liabilities</b>	<b>1,456</b>	<b>673</b>	<b>871</b>
<b>Total Equity and Liabilities</b>	<b>1,633</b>	<b>1,851</b>	<b>2,175</b>

Source: Company's RHP

### Restated Consolidated Summary Statement of Profits and Loss

Y/E March (Rs. In Crores)	FY19	FY20	FY21
<b>Income</b>			
Revenue from operations	699	1,038	1,566
Other income	3	6	2
<b>Total income</b>	<b>703</b>	<b>1,044</b>	<b>1,569</b>
<b>Expenses</b>			
Cost of materials consumed	193	442	709
Changes in inventories of finished goods and work-in-progress	12	3	-64
Employee benefits expense	49	103	147
Finance costs	18	26	33
Depreciation and amortization expense	31	67	97
Other expenses	245	247	333
<b>Total Expenses</b>	<b>548</b>	<b>889</b>	<b>1,255</b>
Profit before profit in associate, tax and exceptional item	155	155	314
Share of profit in associate	0	-	-
Profit before exceptional items and tax	155	155	314
Exceptional items	-	232	-14
<b>Profit before tax</b>	<b>155</b>	<b>387</b>	<b>300</b>
Tax expense	55	27	85
<b>Profit for the year from continuing operations</b>	<b>100</b>	<b>360</b>	<b>215</b>
<b>Discontinued operations:</b>			
Profit for the year from discontinued operation before tax	113	-	-
Tax expense of discontinued operations	-40	-	-
<b>Profit for the year</b>	<b>173</b>	<b>360</b>	<b>215</b>
Other Comprehensive Income for the period / year, net of tax	1	-29	-1
<b>Total Comprehensive Income for the period / year</b>	<b>174</b>	<b>332</b>	<b>214</b>
<b>Earnings per share from continuing operations (Diluted)</b>	<b>3.0</b>	<b>7.1</b>	<b>3.8</b>

Source: Company's RHP

### Restated Consolidated Summary Statement of Cash Flows

Y/E March (Rs. In Crores)	FY19	FY20	FY21
Net cash (used in) / generated from Operating activities	155	253	143
Net cash (used in) / generated from Investing Activities	204	-954	-156
Net cash generated from / (used in) Financing Activities	-346	767	-67
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>13</b>	<b>66</b>	<b>-80</b>
Cash and Cash equivalents at beginning of the period / year	26	39	105
Cash and Cash equivalents at end of the period / year	39	105	25

Source: Company's RHP



## RATING SCALE (PRIVATE CLIENT GROUP)

### Definitions of ratings

<b>BUY</b>	–	We expect the stock to deliver more than 15% returns over the next 12 months
<b>ADD</b>	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
<b>REDUCE</b>	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
<b>SELL</b>	–	We expect the stock to deliver < -5% returns over the next 12 months
<b>NR</b>	–	<b>Not Rated.</b> Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
<b>SUBSCRIBE</b>	–	We advise investor to subscribe to the IPO.
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<b>NA</b>	–	<b>Not Available or Not Applicable.</b> The information is not available for display or is not applicable
<b>NM</b>	–	<b>Not Meaningful.</b> The information is not meaningful and is therefore excluded.
<b>NOTE</b>	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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## Disclosure/Disclaimer (Private Client Group)

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