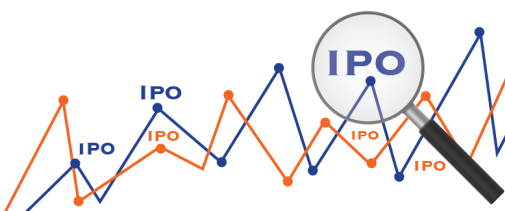


Sona BLW Precision Forgings Limited

Issue Opens	Monday, June 14, 2021
Issue Closes	Wednesday, June 16, 2021
Price Band (in Rs)	285/291
Bid Lot	51 shares and multiples thereafter



IPO UPDATE

Sona BLW Precision Forgings Limited

Industry Overview:

The economy saw a faster-than-expected revival in economic activity as lockdown measures were eased starting from June 1. Several high frequency indicators starting with IIP, PMI manufacturing followed by e-way bill generation and GST collection started showing strong and sustained recovery. Even the auto sales showed sharp recovery led by passenger vehicles. Passenger vehicles sales showed greater rebound supported by pent up demand, festive season and gradual resumption in work from office. All these factors led to better economic performance in comparison to economic growth anticipated for FY21 during the initial months of the pandemic. Increasing labor costs and trade regulations, supply chain issues during Covid-19 has accelerated OEMs efforts to diversify their supply chains outside China. Ricardo expects countries with lower operational costs such as Vietnam, Thailand, India and Mexico to be the key beneficiaries.

a) PLI scheme to boost manufacturing in the long run:

The government has budgeted approximately Rs2trn to give incentives to the local manufacturing units to 13 key sectors. The key sectors likely to get benefit from the scheme include automobiles, pharma, telecom, electronics, food, textiles, steel and energy.

Under the PLI scheme for automotive sector, the government has planned four sub schemes, namely, Global Sourcing Scheme, Vehicle Champion Scheme, Component Champion Scheme, and Production-Linked Incentive Scheme. Further the government has laid out a stringent eligibility criterion in terms of minimum turnover, export revenue and investments in fixed asset in order to ensure that implementation of scheme offers desired results. Auto OEMs need to showcase minimum turnover of Rs100bn, minimum exports of Rs10bn and minimum investment in fixed asset of Rs35bn in order to be eligible for this scheme. Whereas, auto component manufacturers need to showcase minimum turnover of Rs1bn, minimum exports of Rs2bn and minimum investment in fixed asset of Rs3.5bn.

b) Passenger Vehicle – Electric Vehicle Market Share

In CY20, global production of BEVs (Battery Electric Vehicle) stood at approximately 2.3mn units. Tesla accounted for approximately 21% of the share while Renault Nissan & VW accounted for approximately 12% and approximately 10% respectively. For the next five years, automakers have announced plans to release more than 200 new electric car models.

Key Drivers of Vehicle Electrification:

- Climate Change and Public Awareness
- Ban on fossil fuel vehicles by countries
- Emission Regulations
- Fuel Economy/CO2 Norms
- Investments on Charging Infrastructure
- Decline in Battery price
- Total Cost of Ownership

Split by domestic sales and exports:

The Indian PV market is focused on the domestic market, with over 85% demand stemming from the domestic market in FY21. The ratio of exports-to-production for the industry has been declining from 19% in FY16 to 15% in FY21. This can be attributed to muted exports due to a slowdown in the global automobile industry as well as major OEMs focusing on serving fast-growing domestic markets over foreign markets. In FY20, this share had gone up to approximately 20% as OEMs enhance their focus on export markets. Stagnating domestic traction in the past three years has resulted in foreign automobile manufacturers such as Ford, General Motors (GM), and Volkswagen (VW) increasing their focus on exports, thereby improving utilization by using spare capacity and boosting revenue. These players are developing India as an export hub, as evidenced by the consistent increase in the proportion of exports to their total production.

SNAPSHOT

Issue Opens	Monday, June 14,2021	
Issue Closes	Wednesday, June 16, 2021	
Price Band (Rs)	285/291	
Bid Lot	51 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size <i>(Rs Mn)</i>	Fresh Issue	3,000
	OFS	52,500
	Total	55,500
*Implied Market Cap <i>(Rs Mn)</i>	169,737	
P/E <i>(based on FY21 Earnings)*</i>	78.89	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs291

Issue Allocation

Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
Total	100

Object of the Offer

- Repayment and pre-payment of identified borrowings in full availed by the company;
- General corporate purposes

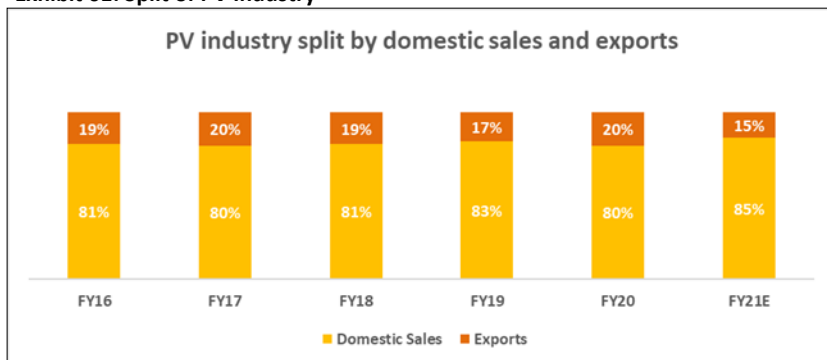


IPO UPDATE

Sona BLW Precision Forgings Limited

Industry (contd.):

Exhibit 01: Split of PV Industry



Source: Company RHP

Industry triggers to benefit the company:

BEVs are expected to grow at a CAGR of approximately 36% between CY20-25 with increased market penetration, according to the Ricardo Report, which will be positive for the company as it supplies EV differential assemblies, differential gears, BSG systems and EV traction motors into this market. According to the Ricardo Report, BEV global vehicle production volume is expected to grow by five times in the next five years from 2.3 million units in CY20 to 11.2 million units in CY25. Further, revenue realization of various components is expected to change according to various degrees of electrification as stated in the Ricardo Report.

Exhibit 02: Revenue realization analysis for various components, according to the Ricardo Report

	ICE	ICE with Micro-Hybrid (Start-Stop)	ICE-Mild Hybrid	ICE-Full Hybrids	BEV (Battery Electric Vehicle)
Bevel Gears	100	=	=	=/+	+
Differential Assembly	100	=	=	=/+	+
Starter Motor	100	+	=	=	NA
BSG (Belt Starter Generator)	NA	NA	+	NA/+	NA
Traction Motor	NA	NA	+ / NA	++	++

Source: Company RHP

Demand for electric two-wheelers is expected to grow at a CAGR of 72% to 74% between FY21-FY26, according to the CRISIL Report and the electric three-wheeler segment is expected to grow at a CAGR of approximately 46% between CY21 to CY25 to reach 400,000 units in sales, according to the Ricardo Report. The company supplies e-axes, BLDC motors and motor control units for use in the electric two-wheeler and three-wheeler segments.

According to the Ricardo Report, 2030 targets for India indicate that 70% of all commercial PV, 30% of private PV, 40% of buses, 80% of two-wheeler and 80% of three-wheeler sales would be electric.

According to the CRISIL Report, Indian CV and PV sales are expected to increase 9% to 10% CAGR and 12% to 14% CAGR, respectively, over FY21 to FY26, with growth of 38% and 23%, respectively in FY22. This will be positive for the differential gears business as the estimated market share of the Indian CV and PV markets is approximately 80% to 90% and 55% to 60%, respectively.

According to the CRISIL and Ricardo Report, the mix of SUVs, CUVs, multi axle trucks and high powered EVs in the Indian and global PV and CV market is expected to increase, leading to higher usage of differential gears per vehicle as these vehicles are AWD/4WD/multi-axle. This trend should be positive for revenue growth of the differential gear business



IPO UPDATE

Sona BLW Precision Forgings Limited

About the company:

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. It 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 in CY20. It is gaining global market share across products to reach a share of approximately 5% for differential bevel gears, 3% for starter motors and 8.7% for Battery electric vehicle ("BEV") differential assemblies, in CY20.

According to the Ricardo Report, in CY20, Sona Comstar 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, CVs and tractors. They are also amongst the top ten global starter motor suppliers based on its exposure to the PV segment and market share in calendar year 2020. Furthermore, 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 differential assemblies, in calendar year 2020, according to the Ricardo Report. The company has nine manufacturing and assembly facilities across India, China, Mexico and USA, of which six are located in India, from where the company supplies products to six out of the top ten global PV OEMs, three out of the top ten global CV OEMs and seven out of the top eight global tractor OEMs by volume. The company's global OEM customer portfolio includes a Global OEM of EVs, a North American OEM of PVs and CVs, Ampere Vehicles, an Indian OEM of PVs, CVs and EVs, Ashok Leyland, CNH, Daimler, Escorts, Escorts Kubota, Geely, Jaguar Land Rover, John Deere, Mahindra and Mahindra, Mahindra Electric, Maruti Suzuki, Renault Nissan, Revolt Intellicorp, TAFE, Volvo Cars and Volvo Eicher. They also serve selected leading Tier 1 automotive system suppliers such as Carraro, Dana, Jing-Jin Electric, Linamar and Maschio.

Exhibit 03: 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 RHP

Strengths:

- One of the leading manufacturers and suppliers to global EV markets
- One of the leading global companies and gaining market share, diversified across key automotive geographies, products, vehicle segments and customers
- Strong research and development and technological capabilities in both hardware and software development
- Strong business development with customer centric approach
- Consistent financial performance with industry leading metrics
- Highly experienced board of directors and management team



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Sona BLW Precision Forgings Limited

Strategies:

1. 'Electrification' – Capturing market opportunity in the growing EV space
 - Differential assemblies and differential gears
 - 48V BSG motor
 - EV traction motors (BLDC and PMSM) and motor control units
2. Increasing market share globally
 - Achieving significant global share from existing systems and components
 - Benefiting from the industry trend towards multi-axle vehicle drives in India
 - Benefiting from integrated powertrain systems in EVs
3. Continue to focus on R&D to develop new and innovative systems and components

Customer Base:

Breakdown of income from sale of goods across geographic markets, and as a percentage of total sales of goods for the periods indicated below:

Exhibit 4: Geographic Breakup

	For Fiscal Year 2019		For Fiscal Year 2020		For Fiscal Year 2021	
	Sale of Goods (₹ in millions)	% of Sales of Goods	Sale of Goods (₹ in millions)	% of Sales of Goods	Sale of Goods (₹ in millions)	% of Sales of Goods
North America	5,791.49	42.4%	4,730.98	40.1%	5,368.10	36.1%
Europe	2,479.88	18.2%	2,766.93	23.4%	3,950.51	26.5%
India	4,301.53	31.5%	3,229.59	27.4%	3,727.29	25.0%
China	264.97	1.9%	257.73	2.2%	1,129.64	7.6%
Others	811.88	6.0%	818.96	6.9%	713.79	4.8%
Total	13,649.75	100%	11,804.19	100%	14,889.34	100%

Source: Company RHP

Financials:

The company is a leading supplier to the fast-growing global electric vehicle markets. It derived 13.8% of revenue from the battery EV market and 26.7% from the micro hybrid/hybrid market in FY21. On the financial performance front, the company has, on a consolidated basis, posted turnover/net profit of Rs10,380mn and Rs3,603mn in FY20 and Rs15,663mn and Rs2,152mn in FY21. According to the 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. For the last three fiscals, it has posted an average EPS of Rs5.10 and an average RoNW of 35.0%. As per offer documents, SBPFL has paid NIL dividend for FY19 but declared and paid a total dividend of 423.98% for FY20 and 189.33% for FY21 (on post bonus equity). It will continue to follow the prudent dividend policy post listing based on its performance and future prospects.

Exhibit 5: Financials Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	6,992	10,380	15,663
EBITDA	2,000	2,423	4,410
EBITDA Margin %	28.6	23.3	28.2
Net Profit After Tax	1,001	3,603	2,152
Net Profit Margin %	14.3	34.7	13.7
Earning Per Share	3.0	7.1	3.8
RoNW (%)	99.5	30.6	16.5

Source: Company RHP, Progressive Research



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Sona BLW Precision Forgings Limited

Risks & Concerns:

- Dependency on the performance of the automotive sector globally, including key markets such as US, Europe, India and China.
- Negative publicity about the brand, or inability to protect any of the intellectual property
- The business largely depends upon 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 the business.
- Dependency on the success of R&D and the failure to develop new or improved products or process improvements or production techniques could subject to write-offs or otherwise adversely affect the business
- The business faces substantial competition
- The geographical concentration of manufacturing facilities may restrict operations and adversely affect the business and financial conditions
- Development of technologically advanced systems and components involves a lengthy and expensive process with uncertain timelines and uncertain outcomes.

Outlook and Recommendations:

There are about half a dozen of IPOs lined up, and Sona Comstar initiates the spree. With the pandemic, there is skepticism around the comeback of the Auto sector, the key discretionary hit due to slowdown in consumer demand. This gives a foot back on whether one should take the risk of awaiting a recovery in the sector. However, there is lot of rigorous spade work happening around the EV space. The company is betting on the future prospects of the EV segment, and that is the trigger for growth going forward. Thereby, the IPO stands as a real long term bet with risks associated around economy recovery, but green shoots of EV to capitalize. Some of the listed peers of the company are Motherson Sumi Systems, Sundaram Clayton, Varroc Engineering, Bosch, Bharat Forge, Endurance Technologies and Minda Industries. We do not have any rating on the IPO and purely depends on the risk appetite of the investor. **This document has been prepared for Information Purpose only.**



IPO UPDATE

Sona BLW Precision Forgings Limited

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