



**Nexus
Investment
Fund**

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EXECUTIVE SUMMARY

Sona Comstar is a leading global supplier transitioning to EV components, leveraging strong market leadership and sustainability-driven growth

- **Sona Comstar** is a leading global supplier of vehicle components, specializing in transitioning from internal combustion engines (ICE) to electric vehicles (EV), with sustainability as a core focus.

Key Financial Metrics

- **Intrinsic Value:** ₹351.39 per share (calculated using DCF).
- **Revenue Growth:** 19.95% YoY (₹3,184.77 crore / \$384.3M).
- **Net Profit Growth:** 30.86% YoY (₹517.27 crore / \$62.4M).

Market Leadership

- 50% market share in differential gears for Indian passenger vehicles.
- 90% market share for Indian commercial vehicles.
- 15% global market share in driveline systems.

Strategic Growth Catalysts

- Transition to EV components with a focus on sustainable manufacturing.
- Proximity to fast-growing EV markets in India and China, benefiting from government incentives.
- Expansion into adjacent sectors, including aviation, drones, and robotics.



COMPANY OVERVIEW

A leading supplier of vehicle components shifting from ICE to EV with sustainability at its core, driving significant growth and competitive advantages in global markets

Business Model Overview

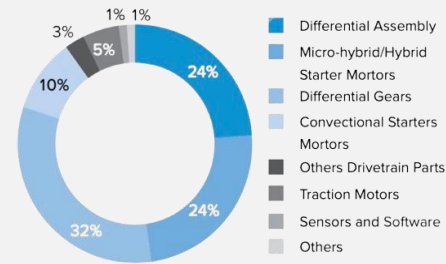
- Mechanical parts for passenger, commercial, and off-road vehicles
- Supplier to 7 of top 10 passenger vehicle manufacturers worldwide
- USP of offering a range of products. Goal is to become a one-stop-shop for vehicle manufacturing companies
- Shift away from ICE to EV
- Heavy emphasis on sustainability

Historic Performance

- Underwent successful merger with Comstar Automotive Technologies Ltd. in 2019 as they shifted to the EV sector
- IPO Date: June 14, 2021
- Listing Price: ₹301 per share
- All-Time High: ₹839.90 on December 14, 2021
- All-Time Low: ₹295.00 on June 24, 2021
- Has had extremely high revenue growth (25% > some years) and profit growth (15% > some years) since IPO

Main Revenue Drivers

- Differential Assemblies
- Differential Gears
- Convectional Starter Motors
- Hybrid Starter Motors
- EV Traction Motors



Breakup of Revenue by Product

Competitive advantages (Moat)

- Proximity to some of the fastest growing EV markets in the world, China and India
- Acquisition of NOVELIC, software company for collision avoidance, blind spot detection, parallel parking assistance, etc.
- Net exporters to China, thus proving they are one of the few EV companies who is not completely dependent on the Chinese

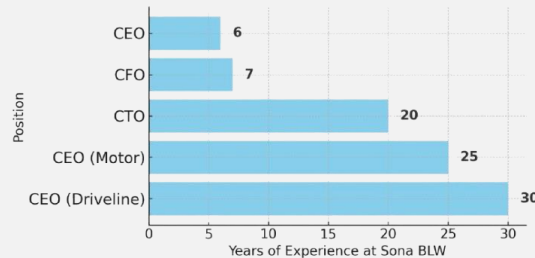


COMPANY OVERVIEW

Strong management expertise, leader in differential gears, global operations in key markets, and steady growth since 2023 lows

Management

- Award-winning management with a lot of industry experience
- Management was retained post merger ensuring best management from both sides



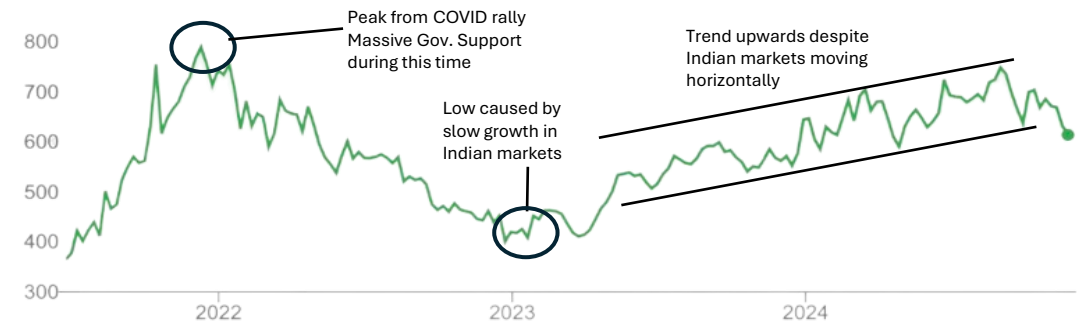
Market Share

- 50% differential gear market share in passenger vehicles in India
- 90% differential gear market share in commercial vehicles in India
- Despite being a smaller, less funded company and less established company amongst competitors like Magna, Bosch, and Valeo, Sona has a 15% market share in global markets

Brand Diversity

- Factories in India, China, Mexico, and the USA – all large costomers of the EV market
- Wide range of products offered many of which can be used in either ICE or BEV and are essential to the vehicles
- The company has also expanded its product portfolio now entering the sensor and software markets as well

Stock Price Analysis



INDUSTRY OVERVIEW

Sona BLW leverages robust demand for EV components and strategic global expansion to capitalize on the accelerating EV revolution.

Macroeconomic Outlook

- Revenue growth by 19.95% to ₹3,184.77 crore (approximately \$384.3 million) and net profit rising by 30.86% to ₹517.27 crore (approximately \$62.4 million)
- Robust demand for the company's Products
- Strategic focus on EV components and expanding global operations position Sona well for sustained growth and profitability, capitalizing on the global EV revolution

Key Competitors



These key competitors hold a significant share of the EV components market

Recent Industry Trends

- Growing demand for EV components and lightweight drivetrains
- Increased focus on sustainable manufacturing
- Expansion of global operations to meet rising demand
- Advancements in automotive technology and electrification



CATALYSTS

Sona BLW leads in differential gears, benefits from EV incentives, and operates globally across key markets.

Positive Catalysts

- Acquisition of NOVELIC software
- Subsidies on exports and tax benefits to players in the EV space
- Indian Government's Faster Adoption and Manufacturing of Hybrid and Electric Vehicles Scheme (FAME III)
- Chinese Government's goal for 40% of new car sales to be EV car sales
- Contract with Equipmake, a UK-based tech company specializing in electric powertrains

About NOVELIC

- This acquisition signifies Sona's adaptability as a company as they are adding electronic solutions to their motor product line
- NOVELIC software is used for collision avoidance, blind spot detection, parallel parking assistance, etc.
- They design sensors which can detect a baby's heart rate and breathing, which are required features for a European car to have a five-star safety rating

Expansion Plans

- Sunay Kapur, chairman of Sona BLW, believes that they will be heavily involved in mobility in a much broader sense than the few types of automotive components that they specialize in right now
- MD and Group CEO Vivek Vikram Singh attested to this shift in vision: "We are looking at any device that transports human beings or goods, and we will try to do parts for everything, not just automotive. It could be aviation, drones, space, bots, ATVs and robotics."
- Mr. Kapur says that the company will pursue the acquisition of tech companies when it makes sense to help them adapt with the times and shift into electronic solutions in addition to motor solutions



RISKS & MITIGATION

External risks to the company accompanied by reasons why those risks are not too large

1 Concerns on EV adoption by economists



Sona supplies to India the most, which is on track to become the largest EV market by 2030, as well as China which is currently the largest EV market. This can be attributed to both countries' government initiatives for EV adoption

2 Gradual reduction of government subsidies



While there may be in Europe and North America, India and China are ramping them up in the coming years

3 Industry is vulnerable to supply chain disruptions



This is due to heavy reliance on China. However, the Group CEO, Vivek Vikram Singh just confirmed that they can reroute their supply of natural materials to Taiwan and that they are in fact net exporters to China

4 Environmental concerns from various pressure groups



New methods which use fewer resources (water, energy and labor) have been developed and are being implemented

5 Regulatory uncertainty



EVs have a net positive impact on the environment, and governments around the world recognize this. Since it is still a relatively new concept it may take time; however, rules and regulations around EVs will certainly fall into place over the coming years



VALUATION

Implementing traditional valuation methods to Sona

- Bosch, Valeo, and Magna as Sona's biggest competitors
- EV/EBITDA industry average of 15.23
- Sona's 2023-2024 EBITDA was ₹9.02 billion (\$104 million)
- Implied EV = ₹9.02 billion x 15.23 = ₹137 billion (\$1.28 billion)

Key Valuation Figures

Current FCF = ₹16,920.76 million

Terminal Value = ₹298,933.36 million

Enterprise Value = ₹205,124.10 million

Intrinsic Value = ₹351.39

| Key Ratios | Sona Comstar | Competitors |
|--------------------------|--------------|-------------|
| P/E | 53.45 | 28.7 |
| ROCE | 23.8% | 16.6 % |
| Revenue Growth | 19% | 9.3 % |
| EV/EBITDA | 47.83 | 15.23 |
| Inventory Turnover (LTM) | 4.30 | 16.41 |
| D/E | 0.03 | 0.57 |
| WACC | 12% | 12% |
| FCF (3Y Avg.) | 32% | 26% |

Interpretation of Valuation

- Over the last 3 months Sona has been trading in the channels of ₹530 - ₹490, meaning it is overvalued by 30%.
- However, the DCF fails to capture the scalability
- In this case, its market dominance, tailwinds to the industry, government support and very strong management.
- We can also infer that there is some amount of premium valuation, however this is normal when looking at companies with high growth expectations in the long-run.



Recommendation: Long buy

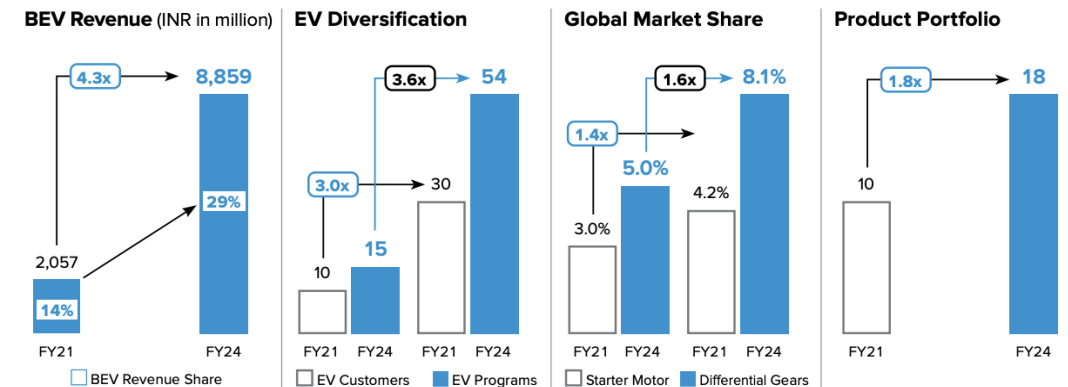
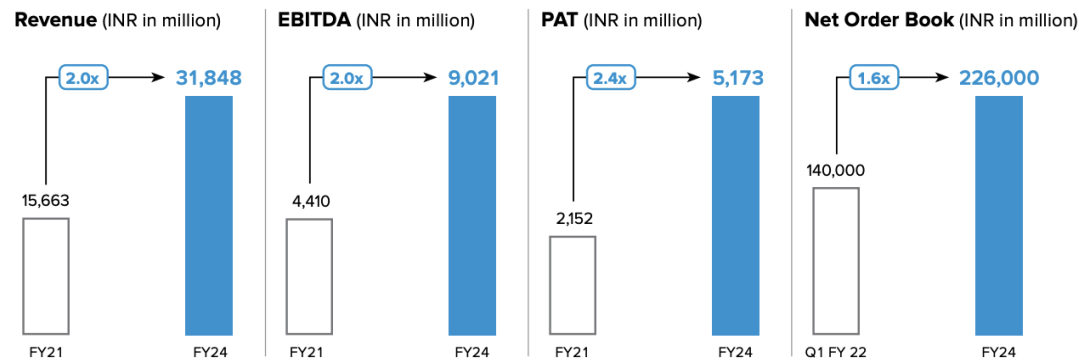
Why Sona's history coupled with its promising future prospects make it a strong buy in the long run

Key Highlights

- **Industry Leader:** Consistently ranked among the Top 10 in Driveline Systems and Precision Forging Technologies
- **Strong Financial Performance:** Consistent revenue and profit growth over the past 7 years
- **Innovation & Integration:** Incorporating NOVELIC's software into the product line, indicating their adaptability to the times by adding electronic solutions to their product line instead of just mechanical solutions
- **Strategic Market Positioning:** Well-placed to capitalize on EV market growth driven by Indian & Chinese government initiatives

The Long Run

- In line with Nexus' fundamental and long-term investment strategy – we believe Sona to be the perfect fit because of the tailwinds to the EV manufacturing and export industry in India
- Sona has shown exponential growth in its product offering and customer base in international as well as domestic markets and does not seem to be slowing down
- It is not a risky bet because of its 3 decades of experience and excellence in the industry





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