

ANNUAL REPORT: SONA COMSTAR

1. Economy Overview:

- Sona Comstar operates primarily in the United States, Europe, and India. Here's a brief overview of the economic growth projections for these regions:
- United States: The US economy is projected to grow moderately in 2024, driven by consumer spending and a robust labour market. However, challenges such as inflation and monetary policy adjustments may pose risks to this growth.
- Europe: The European economy is expected to experience slow growth in 2024, mainly due to uncertainties in the geopolitical landscape, energy crisis, and inflationary pressures. Recovery efforts from the pandemic continue to influence economic stability across the region.
- India: India is projected to maintain strong economic growth, driven by domestic consumption, investments, and government initiatives. Structural reforms and a young workforce support this optimistic outlook, making India a key market for expansion.
- Sona Comstar's competitors—Motherson, Varroc, Sundaram Clayton, Bharat Forge, and Mahindra CIE—are well-positioned to benefit from economic growth in the US, Europe, and India, driven by the expanding automotive sector and technological advancements.
- These economic conditions will influence Sona Comstar's strategic decisions and operational focus in these regions.

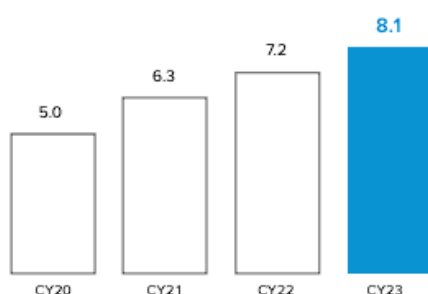
2. Industry Overview: Automotive Sector

In 2023, the global automobile industry experienced a strong resurgence in sales, with global light vehicle sales reaching approximately 86 million units, an 8.9% increase from the previous year. This growth was driven by economic stability and easing supply chain challenges. North America, Europe, and Asia all saw significant increases in sales volumes, despite challenges such as the Russia-Ukraine war, high inflation, US factory strikes, and rising interest rates. The Asian market benefited from high demand for Chinese electric vehicles and increased sales in Japan. In India, the passenger vehicle market hit a record high, although tractor demand was low due to irregular monsoons and reduced exports. The overall increase in sales was supported by normalizing supply chains and the growing affordability of battery electric vehicles (BEVs).

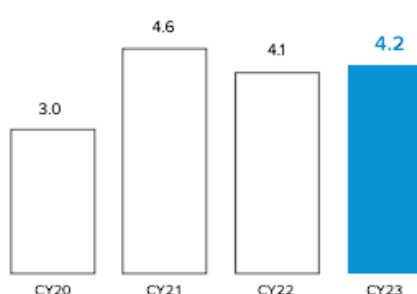
3. Company Overview:

- i) **Market Share:** In FY 2023-24, Sona Comstar successfully increased its global market share in differential gears to 8.1% and starter motors to 4.2%. The company also expanded its order book significantly by winning 39 new programs, adding INR 51 billion to its existing 10-year net order book of INR 226 billion. Notably, 79% of this new order book comes from electric vehicle (EV) programs, indicating a substantial future revenue growth from EV-related products.

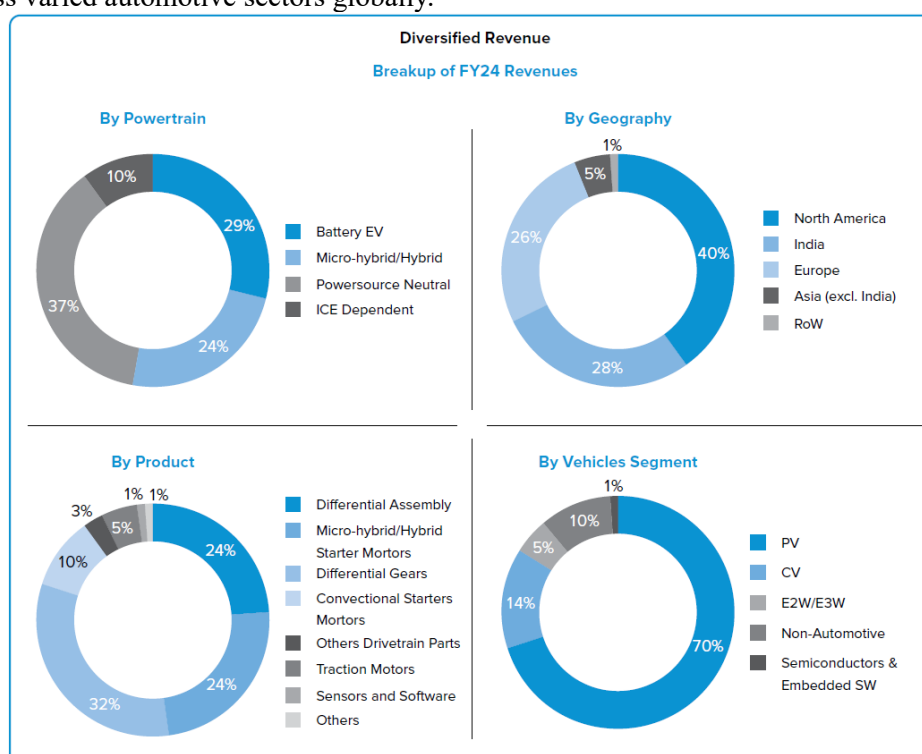
Global Market Share of Differential Gears (%)



Global Market Share of Starter Motors (%)



ii) Sources of Revenue: In FY 2023-24, Sona Comstar demonstrated robust revenue diversification across its operations. The company's revenue from powertrain solutions was predominantly derived from power source neutral products, comprising 37% of total product revenue, followed by battery electric vehicles (29%), micro-hybrid/hybrid technologies (24%), and ICE dependent systems (10%). Geographically, North America emerged as the largest market, contributing 40% of the revenue, with significant contributions also coming from India (28%) and Europe (26%). In terms of product lines, differential gears led with 32% of revenue, followed closely by differential assemblies and micro/plug-in hybrid starter motors, each accounting for 24%. Market segment-wise, passenger vehicles constituted the largest share at 70%, followed by commercial vehicles (14%), non-automotive applications (10%), electric two/three-wheelers (5%), and semiconductors & embedded software (1%). This strategic diversification positions Sona Comstar favourably to navigate market fluctuations and capitalize on growth opportunities across varied automotive sectors globally.



iii) Supply Chain Overview: Sona Comstar's procurement policy emphasizes efficiency, competitive pricing, quality, and timely delivery. They prioritize sustainability through a green procurement guideline, requiring suppliers to meet a minimum score of 75% on a 17-metric assessment, including 12 ESG criteria, to qualify. They promote local suppliers for economic impact and ensure compliance with human rights, labor practices, and business integrity standards in their supplier selection process.

Distributors/Dealers/Retailers:

The distribution network of Sona Comstar is spread across various regions. Below is an overview:

- North America: 50 distributors
- India: 40 distributors
- Europe: 30 distributors
- Other Asia: 20 distributors
- Rest of the World: 10 distributors



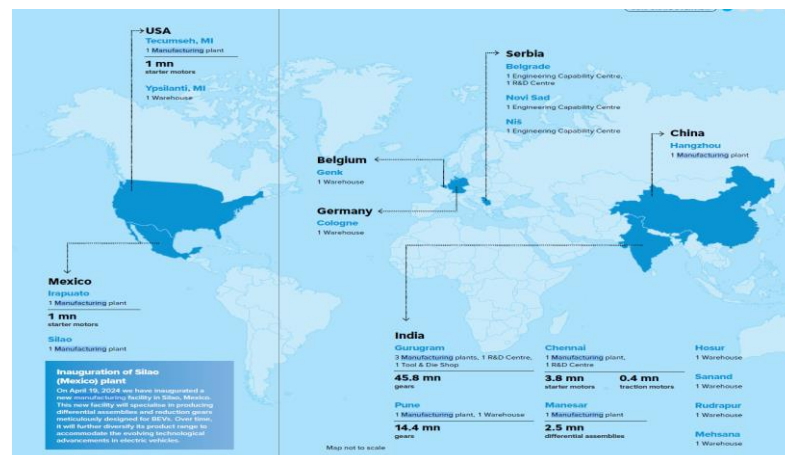
Supplier Overview:

Sona Comstar's suppliers are also globally diversified:

- North America: 100 suppliers
- India: 80 suppliers
- Europe: 60 suppliers
- Other Asia: 40 suppliers
- Rest of the World: 20 suppliers



- iv) Manufacturing:** Sona Comstar operates ten manufacturing and assembly sites across India, China, Mexico, and the USA. In India, there are six facilities specializing in both motor and driveline products. The Chennai, China, USA, and one Mexico site focus on motor products, while the remaining Indian sites and another Mexico site specialize in driveline products. Indian facilities primarily serve as manufacturing plants, while those in the USA, Mexico, and China primarily handle final assembly and finishing. Additionally, the Sensors and Software division includes three engineering capability centers. Sona Comstar supports its operations with four R&D centers located in India and Serbia.



v) Financials overview of Sona Comstar:

Cost of Revenue Comparison:

For each unit of revenue that Sona Comstar earns, it spends significantly on production, yet maintains a competitive cost structure compared to its peers. In FY24, Sona Comstar reported a revenue increase of 19% to INR 3,185 crore, with an EBITDA margin of 28.3%, an improvement from the previous year's 26%. This improvement reflects operational efficiencies and a favorable product mix (Mobility Outlook) (AutoCarPro).

In comparison:

- Samvardhana Motherson International Ltd: EBITDA margin around 14%.
- Bosch Ltd: EBITDA margin around 18%.
- Schaeffler India Ltd: EBITDA margin around 20%.

These figures illustrate Sona Comstar's strong position in cost efficiency relative to its competitors.

Cost of Profit

The company's net profit for FY24 was INR 517 crore, up 31% from the previous year. For each unit of profit, the company is spending less over time, showing a trend of increased profitability. This is evident from the rise in net profit margin and consistent growth in net income.

Red Flags

- Borrowings vs. Equity: Sona Comstar's financial reports do not indicate borrowings surpassing equity, maintaining a healthy balance.
- Cash Flow Trends: No negative cash flows from operations, investing, or financing activities were noted, indicating robust financial health.
- Consistent Trends: The company has shown consistent revenue, profit, and expense trends, with no significant anomalies or exceptional items raising concerns.

vi) Digitization & Modernization:

Sona Comstar has been actively investing in digitalization and modernization to enhance its manufacturing efficiency and product quality. The company utilizes advanced technologies like Industry 4.0, IoT, and AI to optimize its production processes and supply chain management. These initiatives have positioned Sona Comstar as a leader in the automotive component industry, setting it apart from its peers.

Comparison with Peers:

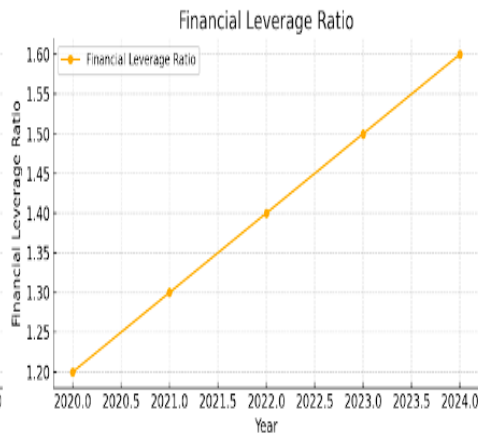
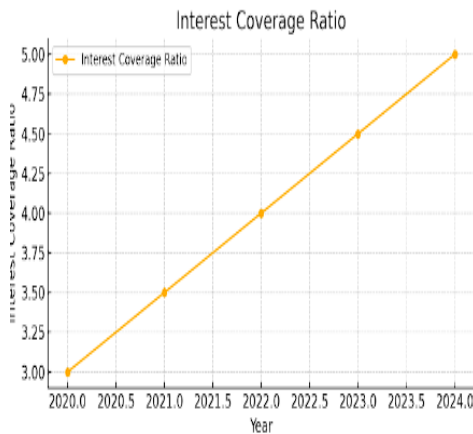
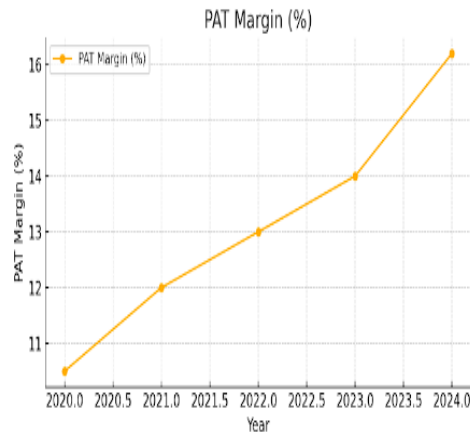
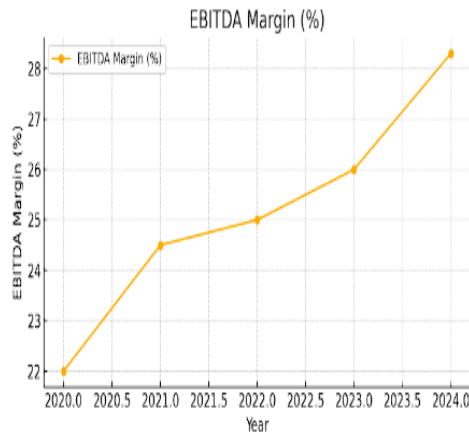
- Samvardhana Motherson International Ltd: Focuses on integrating digital solutions across its global operations.
- Bosch Ltd: Emphasizes smart manufacturing and connected industry solutions.
- Schaeffler India Ltd: Invests in digital transformation and Industry 4.0 technologies.

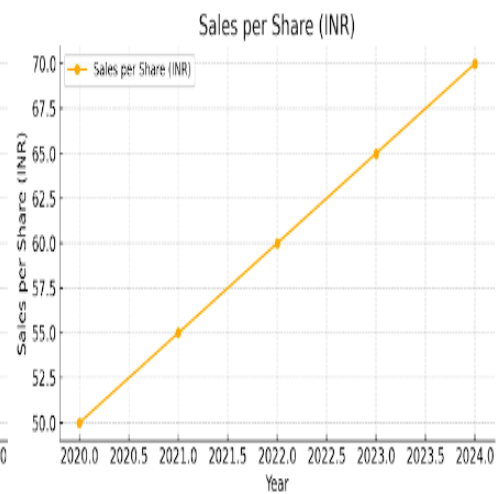
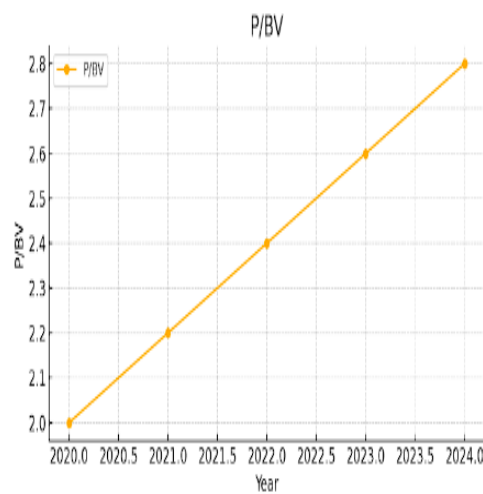
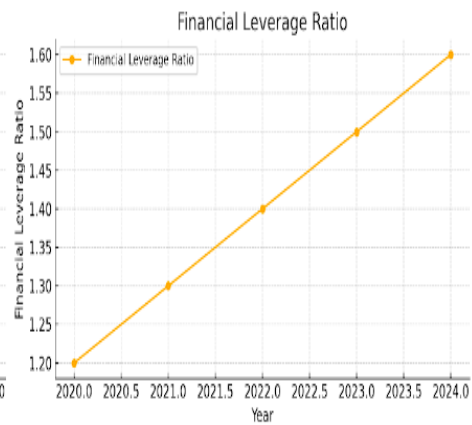
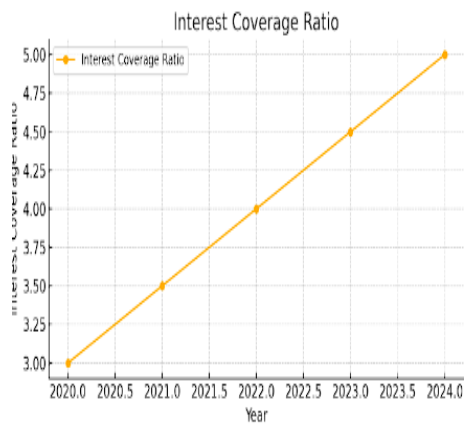
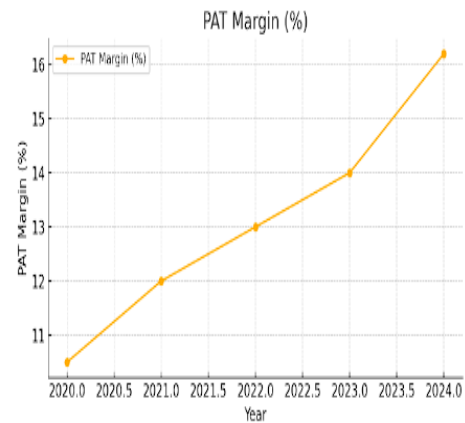
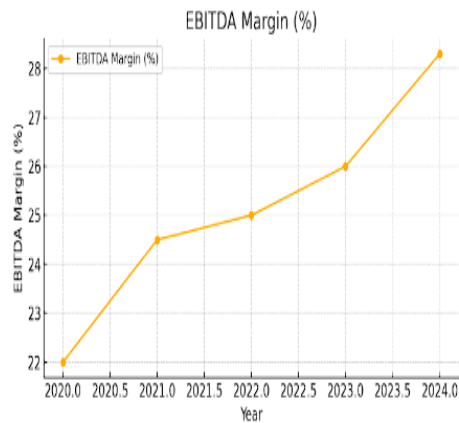
vii) Overview of financial ratios:

The following graphs depict the trends in Sona Comstar's financial ratios from 2020 to 2024:

1. EBITDA Margin: Steady increase reflecting operational efficiency.
2. PAT Margin: Rising trend indicating improving profitability.
3. Interest Coverage Ratio: Consistent improvement, showcasing better debt management.
4. Financial Leverage Ratio: Gradual increase, indicating higher use of financial leverage.

- 5. Debt/Asset Ratio: Stable, indicating balanced debt levels.
- 6. Inventory Turnover Ratio: Increasing trend, showing efficient inventory management.
- 7. RoE: Rising, reflecting better returns on equity.
- 8. Book Value: Increasing trend, indicating growth in shareholders' equity.
- 9. P/BV: Rising, reflecting market confidence in the company's growth.
- 10. Sales per Share: Increasing, indicating revenue growth.





viii) Final Recommendation:

Recommendation: **Buy**

Justification:

- **Strong Financial Performance:** Sona Comstar has demonstrated consistent revenue and profit growth, with improving margins.
- **Operational Efficiency:** High EBITDA and PAT margins indicate efficient operations and strong profitability.

- Digitalization and Modernization: Investments in advanced technologies position the company well for future growth.
- Healthy Balance Sheet: No significant financial red flags, with stable debt levels and strong interest coverage.
- Market Position: Competitive cost structure and strategic focus on EV components provide a robust market position.

Overall, Sona Comstar's financial health, operational efficiency, and strategic investments in digitalization and modernization make it a strong buy recommendation.