

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	SONA.BO
Bloomberg code	SONA IN
Market cap. (US\$ mn)	169
6M avg. daily turnover (US\$ mn)	0.4
Issued shares (mn)	199
Target price (Rs)	62

#### Performance (%) 1M 3M 12M

Absolute	(2)	(15)	190
Relative	(6)	(17)	107

#### Valuation ratios (Consolidated)

Yr to 31 Mar	FY16E	FY17E
EPS (Rs)	1.7	2.8
+/- (%)	9.4	65.7
PER (x)	30.8	18.6
PBV (x)	2.6	2.3
Dividend/Yield (%)	1.9	2.1
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	6.5	5.8

#### Major shareholders (%)

Promoters	53
MFs	1
BFSI's	1
Public & Others	46

#### Financial highlights (Consolidated)

(Rs mn)	3QFY14	3QFY15	YoY (%)	2QFY15	QoQ (%)	FY14	FY15E	YoY (%)	FY16E	YoY (%)	FY17E	YoY (%)
Net sales	3,935	3,725	(5.3)	4035	(7.7)	14,923	15,356	2.9	16,679	8.6	18,836	12.9
EBITDA	465	476	2.3	558	(14.8)	1785	2,023	13.3	2,259	11.7	2597	15.0
EBITDA margin (%)	11.8	12.8	—	13.8	—	12.0	13.2	—	13.5	—	13.8	—
Other income	13	11	(15.0)	14	(23.1)	43	56	31.6	61	8.2	67	10.3
Interest	94	76	(19.6)	81	(7.0)	392	333	(15.1)	326	(2.0)	320	(2.0)
Depreciation	159	253	59.0	265	(4.5)	679	1,013	49.1	1,095	8.1	1,178	7.5
PBT	578	157	(72.8)	226	(30.3)	1,079	733	(32.1)	898	22.6	1,166	29.8
Tax	107	50	(53.0)	33	50.4	247	241	(2.7)	350	45.6	354	1.0
Net profit	472	71	(84.9)	86	(17.1)	832	492	(40.9)	548	11.3	812	48.3
Adjusted PAT	98	71	(27.6)	86	(17.1)	323	307	(5.1)	336	9.4	556	65.7
PAT margin (%)	2.5	1.9	—	2.1	—	2.2	2.0	—	2.0	—	3.0	—
Adjusted EPS (Rs)	0.5	0.4	—	0.4	—	1.6	1.5	—	1.7	—	2.8	—

## Sona Koyo Steering Systems

**Outperformer**

**Price: Rs 53**

**BSE Index: 28,534**

**12 February 2015**

### 3QFY15 Result – Drive on electronic power steering...

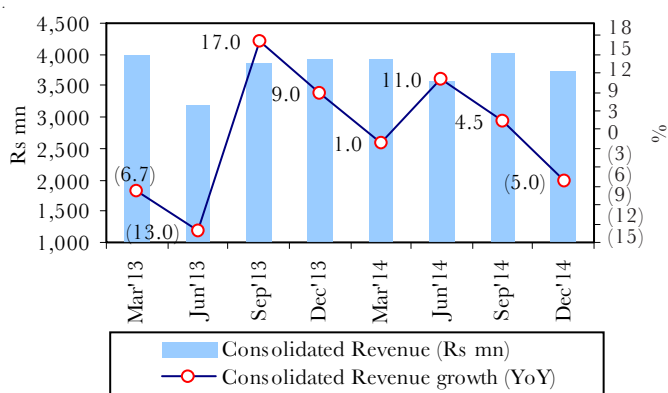
- Sona Koyo Steering Systems (SONA) reported consolidated revenues of Rs 3.7 bn, de-growth of 5.3% YoY (sequentially down by 7.7%), due to early festivals in FY15 and slowdown in rural demand (mainly Mahindra & Mahindra). SONA also witnessed dip in the exports volumes.
- For 3QFY15, SONA reported consolidated EBITDA margins of 12.8%, up by 100 bps YoY. Raw material cost improved by 320 bps YoY due to localisation of CEPS (Colum-electric power steering), better product mix and weak JPY (~13% of imports are in JPY).
- However, employee expenses increased by 140 bps due to scale and other expenses increased by 80 bps YoY. Management expects to reach ~14% EBITDA margin, going forward.
- Depreciation increased by 59% YoY due to implementation of new Companies Act. Interest expenses have declined by 19.6% YoY due to reduction in debt.
- SONA reported consolidated adjusted PAT of Rs 71 mn in 3QFY15, a drop of 27.6% YoY.
- In 3QFY15, the subsidiary company JTEKT Sona, provided price discounts to customers (April 2014 to December 2014) for ~Rs 30 mn.
- In Electronic Power Steering (EPS), SONA's market share is ~38% in the domestic market.

### Outlook and valuation

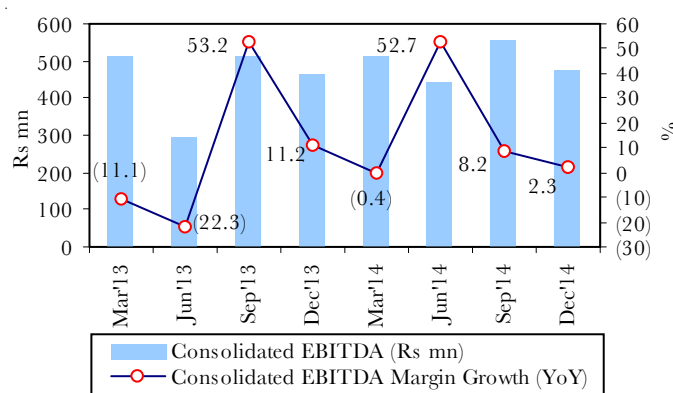
- The company primarily caters to PV industry. PV industry has been under pressure for the last three years on weak sentiments and slowdown in economy. Going forward, we expect PV demand likely to improve on improvement in sentiments, revival of economy, favourable cost of ownership (sharp reduction in fuel prices and expected interest rate cut). Maruti is largest customer for SONA; Maruti contributes ~41% of total SONA consolidated revenues. We expect Maruti to grow at ~15% CAGR; this would support the growth momentum for SONA.

- In the recent times, tractor industry is under pressure due to poor farm yields and realisations. The company is banking high on its new technology Electronic Power Assist Module (EPAM) for off-highway and farm segment. EPAM contributed ~20% of totals sales YTD. SONA has started supplying EPAM to Escorts. SONA is expecting to start the mass production for EPAM from June 2015; the company is also expecting new orders from other OEM's. Also SONA is also expecting orders from North America for EPAM. These would drive the growth momentum going forward.
- The company is planning to launch new products in the off-highway and tractor. SONA has also started test marketing its new product for tractors (retrofit for tractors).
- At the current market price of Rs 52, the stock is trading at 30.8x FY16E consolidated earnings of Rs 1.7 and 18.6x FY17E consolidated earnings of Rs 2.8. Considering demand pick-up in the PV OEM segment and also expected improvement in tractor segment, increasing exposure of EPAM product profile in the product mix and better operating efficiency, we have positive outlook view on the stock. We assign Outperformer rating for the stock with a target price of Rs 62 (based on 22x FY17E consolidated earnings).

### Consolidated Sales trend

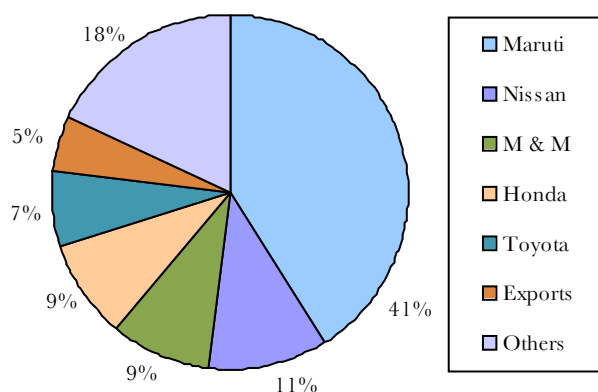


### Consolidated EBITDA growth trend



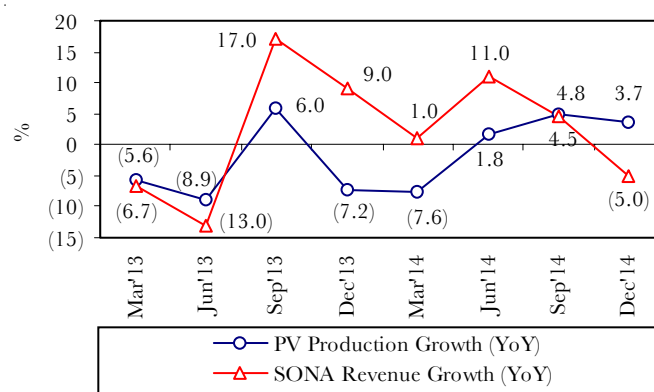
Source: Company, B&K Research

### Consolidated Revenue break-up



Source: B&K Research

### Domestic PV Industry and SONA revenue growth



Source: SIAM data, Company and BK Research

**Income Statement (Consolidated)**

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
<b>Net sales</b>	<b>14,923</b>	<b>15,356</b>	<b>16,679</b>	<b>18,836</b>
<i>Growth (%)</i>	2.2	2.9	8.6	12.9
Operating expenses	(13,138)	(13,334)	(14,420)	(16,239)
<b>Operating profit</b>	<b>1,785</b>	<b>2,023</b>	<b>2,259</b>	<b>2,597</b>
<b>EBITDA</b>	<b>1,785</b>	<b>2,023</b>	<b>2,259</b>	<b>2,597</b>
<i>Growth (%)</i>	8.5	13.3	11.7	15.0
Depreciation	(679)	(1,013)	(1,095)	(1,178)
Other income	43	56	61	67
<b>EBIT</b>	<b>1,148</b>	<b>1,066</b>	<b>1,225</b>	<b>1,486</b>
Finance cost	(392)	(333)	(326)	(320)
Exceptional & extraordinary	323	0	0	0
<b>Profit before tax</b>	<b>1,079</b>	<b>733</b>	<b>898</b>	<b>1,166</b>
Tax (current + deferred)	(247)	(241)	(350)	(354)
<b>P/(L) for the period</b>	<b>832</b>	<b>492</b>	<b>548</b>	<b>812</b>
P/L of Associates, Min Int, Pref Div	(185)	(185)	(212)	(256)
Reported Profit/(Loss)	647	307	336	556
Adjusted net profit	323	307	336	556
<i>Growth (%)</i>	(15.1)	(5.1)	9.4	65.7

**Balance Sheet (Consolidated)**

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Share capital	199	199	199	199
Reserves & surplus	2,859	3,204	3,775	4,341
<b>Shareholders' funds</b>	<b>3,058</b>	<b>3,403</b>	<b>3,974</b>	<b>4,540</b>
Minority Intersts and others	785	785	785	785
<b>Non-current liabilities</b>	<b>2,285</b>	<b>2,540</b>	<b>1,682</b>	<b>1,661</b>
Long-term borrowings	1,696	2,488	1,550	1,519
Other non-current liabilities	590	52	132	142
<b>Current liabilities</b>	<b>4,262</b>	<b>4,258</b>	<b>5,285</b>	<b>5,639</b>
ST borrowings, Curr maturity	1,750	1,916	2,936	3,333
Other current liabilities	2,512	2,342	2,349	2,306
<b>Total (Equity and Liab.)</b>	<b>10,390</b>	<b>10,985</b>	<b>11,726</b>	<b>12,625</b>
<b>Non-current assets</b>	<b>6,889</b>	<b>7,221</b>	<b>7,157</b>	<b>8,156</b>
Fixed assets (Net block)	6,741	7,047	6,984	7,983
Non-current Investments	8	70	70	70
Long-term loans and advances	141	103	103	103
<b>Current assets</b>	<b>3,501</b>	<b>3,765</b>	<b>4,569</b>	<b>4,469</b>
Cash & current investment	28	32	35	40
Other current assets	3,473	3,733	4,534	4,429
<b>Total (Assets)</b>	<b>10,390</b>	<b>10,985</b>	<b>11,726</b>	<b>12,625</b>
Total debt	3,446	4,404	4,486	4,852
Capital employed	7,878	8,644	9,377	10,319

**Cash Flow Statement (Consolidated)**

Period end (Rs mn)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Profit before tax	1,079	733	898	1,166
Depreciation	679	1,013	1,095	1,178
Change in working capital	37	100	(736)	49
Total tax paid	(239)	(718)	(350)	(354)
Others	300	375	321	309
<b>Cash flow from oper. (a)</b>	<b>1,857</b>	<b>1,503</b>	<b>1,228</b>	<b>2,348</b>
Capital expenditure	(1,037)	(1,320)	(1,032)	(2,178)
Change in investments	287	(62)	(100)	(100)
Others	10	10	1,294	2,441
<b>Cash flow from inv. (b)</b>	<b>(740)</b>	<b>(1,372)</b>	<b>163</b>	<b>163</b>
<b>Free cash flow (a+b)</b>	<b>1,117</b>	<b>131</b>	<b>1,391</b>	<b>2,511</b>
Debt raised/(repaid)	(654)	958	82	366
Dividend (incl. tax)	(151)	(187)	(204)	(227)
Others	(399)	(277)	(77)	(317)
<b>Cash flow from fin. (c)</b>	<b>(1,204)</b>	<b>494</b>	<b>(199)</b>	<b>(178)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(87)</b>	<b>625</b>	<b>1,193</b>	<b>2,333</b>

**Key Ratios (Consolidated)**

Period end (%)	Mar 14	Mar 15E	Mar 16E	Mar 17E
Adjusted EPS (Rs)	1.6	1.5	1.7	2.8
Growth	(15.1)	(5.1)	9.4	65.7
CEPS (Rs)	5.0	6.6	7.2	8.7
Book NAV/share (Rs)	15.4	17.1	20.0	22.8
Dividend/share (Rs)	0.8	0.9	1.0	1.1
Dividend payout ratio	29.0	66.5	67.5	44.8
EBITDA margin	12.0	13.2	13.5	13.8
EBIT margin	7.7	6.9	7.3	7.9
Tax rate	32.7	32.8	39.0	30.4
RoCE	14.6	12.9	13.6	15.1
Total debt/Equity (x)	0.9	1.1	0.9	0.9
Net debt/Equity (x)	0.9	1.0	0.9	0.9
<b>Du Pont Analysis - ROE</b>				
Net margin	2.2	2.0	2.0	3.0
Asset turnover (x)	1.4	1.4	1.5	1.5
Leverage factor (x)	3.7	3.3	3.1	2.9
Return on equity	11.4	9.5	9.1	13.1

**Valuations (Consolidated)**

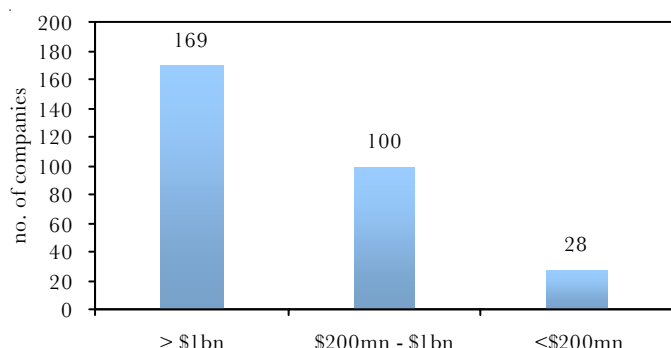
Period end (x)	Mar 14	Mar 15E	Mar 16E	Mar 17E
PER	32.0	33.7	30.8	18.6
PCE	10.3	7.8	7.2	6.0
Price/Book	3.4	3.0	2.6	2.3
Yield (%)	1.5	1.7	1.9	2.1
EV/EBITDA	7.7	7.3	6.5	5.8

**Annamalai Jayaraj**  
**annamalai.jayaraj@bksec.com**  
**+91-44-6547 4401**

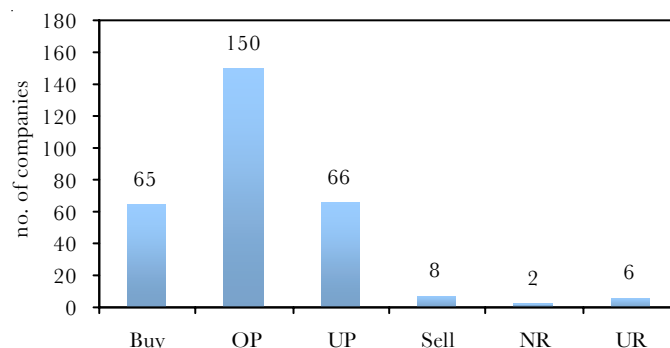
**Kartik Rajpara**  
**kartik.rajpara@bksec.com**  
**+91-44-6547 4404**

## B&K Universe Profile

**By Market Cap (US\$ mn)**



**By Recommendation**



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### B&K Investment Ratings.

	<b>LARGE CAP</b> (Market Cap > USD 2 bn)	<b>MID CAP</b> (Market Cap of USD 200 mn to USD 2 bn)	<b>SMALL CAP</b> (Market Cap <USD 200 mn)
<b>BUY</b>	>+20% (absolute returns)	>+25% (absolute returns)	>+30% (absolute returns)
<b>OUTPERFORMER</b>	+10% to +20%	+15% to +25%	+20% to +30%
<b>UNDERPERFORMER</b>	+10% to -10%	+15% to -15%	+20% to -20%
<b>SELL</b>	<-10% (absolute returns)	<-15% (absolute returns)	<-20% (absolute returns)

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**Equity Research Division:** City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.  
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