

# Sona Koyo Steering Systems

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## Shareholding (%)

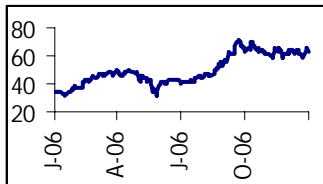
Indian Promoters	29.7
Foreign Promoter	20.1
MF/UTI	2.6
Others	48.2

## Share price performance

52-week high/low (Rs)	77/31
	-1m -3m -12m
Abs (%)	3.1 0.1 2.7
Rel* (%)	-4.1 -11.6 39.6

\*to Nifty

## Stock chart



## Strong topline growth

During Q3FY07, Sona Koyo Steering Systems Limited's (SKSSL's) topline increased by a staggering 84.6% YoY, from Rs814.1 mn to Rs1,509.8mn. The topline growth was driven mainly by increase in sales to Maruti Udyog Limited (MUL) by 121% at Rs902.7mn; during the quarter, SKSSL increased its supplies of electronic power steering systems to MUL for its models like *Alto*, *Versa*, and *Wagon R*. An increase in sales to Hyundai Motors Limited by 81% YoY to Rs181.0mn, also supported the growth in topline.

▲ **Margins remain under pressure:** A change in product mix impacted SKSSL's operating profit margins that declined by 200 bps YoY, from 12% in Q3FY06 to 10% in Q3FY07; since April 2006 onwards, the company started supplying electronic power steering systems to its clients. Electronic power steering components are entirely imported; this increases overall costs. Moreover, high prices of these components leave little room for margin expansion. In addition, competitive pressures also constrained the company's ability to transfer this cost to end-users. In the coming quarters, SKSSL expects its margins to stabilise, once it localises its production.

▲ **Strong bottomline:** SKSSL's net profits after tax increased by 88% YoY, at Rs66.3mn from Rs35.3mn; this increase was registered despite a higher tax base due to FBT.

▲ **Order book to drive the topline further:** The orders secured by SKSSL from various customers are likely to translate into revenues of Rs800 mn per year, from next year onwards.

▲ **Volumes drive profit growth:** Despite margin pressures, SKSSL's operating profits increased by 53% YoY, from Rs 98mn to Rs149.8mn. This growth was volume-driven (see table 1):

Table 1. Increase in sales volumes

Product	Sales Volume	Sales Volume	YoY (%)
	April to Dec'06	Last Year	
Manual Steering Systems	560,000	400,000	40%
Hydraulic power Steering Systems	170,000	100,000	70%
Electronic Power Steering Systems	170,000	less than 1000	

Source: IISL research, company

▲ **Expansion plans ahead to augment growth:** Currently, SKSSL has a capacity of manufacturing 1.2 mn steering systems. It plans to double this capacity within next two years. For this purpose, SKSSL is setting up a new plant in Dharuhera.

**Not  
Rated  
Rs62**

19 January 2007

## Market cap

Rs bn 6

US\$ mn 126

## Avg 3m daily volume

234,455

## Avg 3m daily value

Rs mn 15

## Shares outstanding (mn)

88

## Reuters

SONA.BO

## Bloomberg

SONA IN

## Sensex

14,183

## Nifty

4,090

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The Installation of machines has commenced and plant is likely to be operational in Q4 FY'07. The company is also expanding the capacity of it's Existing Chennai plant from 200,000 to 400,000 steering systems; The products produced at these plants include manual steering systems, Hydraulic power steering systems, & and columns for manual steering. This expansion, requiring an additional capex of Rs4000 mn, will be funded through:

**Table 2. Funding of Capex**

Equity	800 mn	To be taken up by promoters and collaborators. Promoters' stake, post-issue, will increase to 21.65% from 18.36% currently
Internal accruals	1250 mn	
Debt	1950 mn	10 years long-term debt

Source: IISL research, company

- ▲ **Expanding in Europe and South America:** Sona Group has created a new company, Sona AutoComp Europe, (24% stake holding of SKSSL) for outsourcing of auto components and providing logistic services to European clients. As on date, it is a small company serving as a front-end for SKSSL in Europe.

In Dec'06 SKSSL has started supplying steering columns to Fuji Autotech, Brazil. also, it has formed a joint venture with Arjan Auto for manufacturing globally competitive and world- class sheet metal stamping and steering column parts to meet its own requirements; surplus production will be exported to markets in Europe and South America.

- ▲ **Valuations:** At current price of Rs 62, stock trades 21x annualized Q3FY07 earnings. **At present we do not have rating on the stock.**

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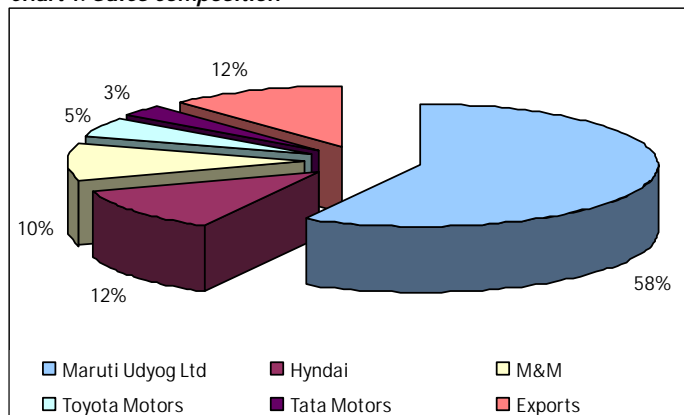
Table 3. Quarterly result table

Rs mn	Q3FY07	Q3FY06	YoY (%)	Q2FY07	QoQ (%)
Net Sales	1,509.8	814.1	85%	1,384.9	9%
Total Expenses	1,360.0	716.1	90%	1,252.0	9%
Inc / Dec in stock	(8.7)	(8.1)	7%	5.6	-255%
Raw material consumed	1,111.9	568.0	96%	1,006.7	10%
Employee cost	103.2	67.2	54%	91.2	13%
Other Expenses	153.6	89.0	73%	148.5	3%
EBIDTA	149.8	98.0	53%	132.9	13%
Other Income	-	3.6	-100%	7.6	-100%
PBIDT	149.8	101.6	47%	140.5	7%
Interest	8.2	16.2	-49%	22.5	-64%
Gross Profit	141.6	85.4	66%	118.0	20%
Depreciation	36.6	26.7	37%	29.5	24%
PBT	105.0	58.7	79%	88.5	19%
Tax	38.7	17.2	125%	28.5	36%
PAT	66.3	41.5	60%	60.0	11%
Extraordinary items	-	6.2	-100%	(3.6)	-100%
Adjusted Net profit	66.3	35.3	88%	63.6	4%
Equity	175.9	87.9	100%	175.9	0%
EPS	0.8	0.8	-6%	0.7	4%
<b>Key Ratios (%)</b>					
EBIDTA Margin	9.9	12.0		9.6	
Interest / Sales	0.5	2.0		1.6	
Tax / PBT	36.9	29.3		32.2	
NPM	4.4	4.3		4.6	

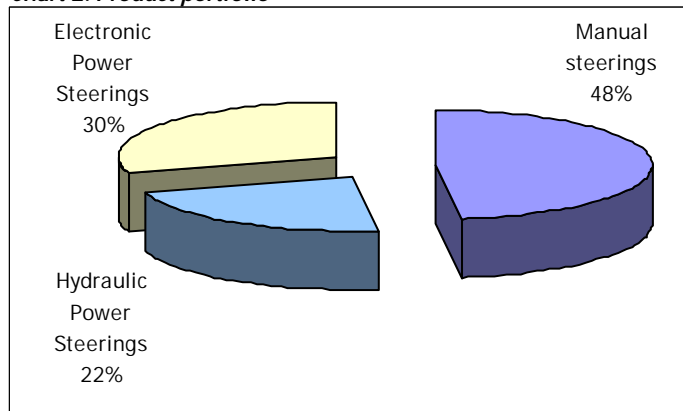
Source: IISL research, company

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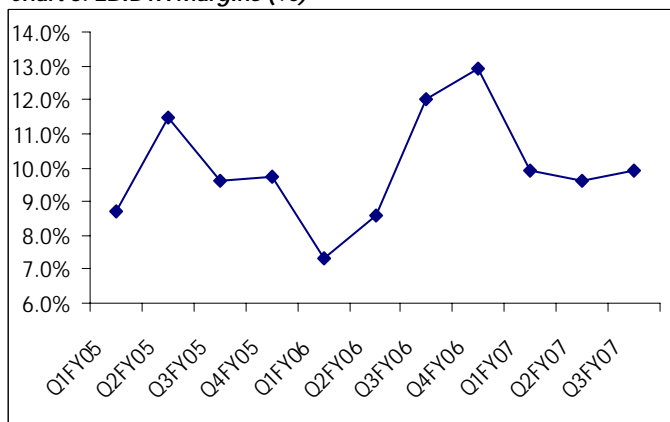
**Chart 1. Sales composition**



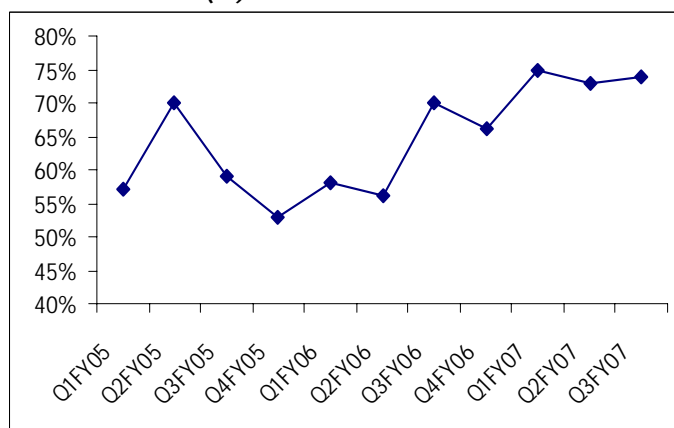
**Chart 2. Product portfolio**



**Chart 3. EBITDA Margins (%)**



**Chart 4. RM/Sales (%)**



Source: IISL, Company

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