

Q2FY2012 Review
 Sector: Auto Ancillary
 BSE Sensex: 17,465

SONA KOYO STEERING SYSTEMS

 Maintain BUY
 CMP Rs14
 TP Rs22

Strike And Yen Steer Down Profits

Sona Koyo Steering Systems' (SONA) Q2FY12 results were below estimate as lower margins and higher interest cost impacted profits. Revenues grew 8.7% YoY to Rs2.7bn and were 4.4% ahead of estimates. Margins were impacted due to a 13.9% sequential increase in other expenditure. Margins contracted 70bps YoY (90bps QoQ) to 9.6% as against our estimate of 9.9%. Interest cost for the quarter rose 12% QoQ to Rs95mn. Due to the contraction in margins and higher interest costs net profits slumped 26.6% QoQ to Rs68mn, 14% lower than our estimate. Consolidated profits slipped into the red as performance was marred by a forex loss of Rs93mn.

Revenues hit by labour unrest at Maruti: The domestic car industry had a challenging quarter. Fuel price hikes and increase in interest rates deterred customers from vehicle purchases and industry production volumes were lower by 1.6%. Additionally labour issues at market leader Maruti Suzuki's (MSIL's) Manesar facility led to a 24% YoY decline in production for the company. Despite the loss of revenue from MSIL, SONA's managed to post an 8.7% growth in topline to Rs2.7bn, 4.4% higher than our estimate.

Increase in overheads; margins underperform: While raw material cost as a percentage of sales remained stable at 72.9%, overhead costs witnessed a 13.9% QoQ jump. As a result margins contracted 90bps sequentially to 9.6%, 30bps lower than our estimate. Despite the lower margins, the higher revenue helped the company post an EBITDA of Rs262mn, 1.5% higher than our estimate. However, higher interest costs translated in a net profit of Rs68mn as against our estimate of Rs79mn.

Consolidated performance impacted due to the yen appreciation: Consolidated revenue grew 19.6% YoY to Rs3.4bn. Margins contracted 490bps QoQ (280bps YoY) to 9.7% largely due to increase in raw material cost and increase in overheads. The company also took a hit of Rs93mn on revaluation of loans of JPY1bn taken by a subsidiary. As a result net profits after minority interest slipped into the red.

Outlook: Consequent to the labour issues at MSIL and subsequent loss of production, we have reduced FY12 revenue estimate by 2.8% while maintaining FY13 estimate. We have also increased the interest estimate for FY12 and FY13 considering the hardening of interest rates. Our earnings estimate for FY12 and FY13 are lowered by ~10% to Rs1.8 and Rs2.2 respectively.

VALUATIONS AND RECOMMENDATION

We rollover valuations to FY13 with an earnings multiple of 10x. The stock is currently trading at 6.5x its FY13E standalone earnings. We maintain 'BUY' recommendation on the stock with a target price of Rs22 (earlier Rs24) discounting FY13E earnings 10x.

KEY FINANCIALS (STANDALONE)					
	(Rs mn)				
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	6,932	8,503	10,317	11,239	13,006
YoY Gr.(%)	1.4	22.7	21.3	8.9	15.7
EBITDA	183	902	1,058	1,116	1,270
EBITDA Marg.(%)	2.6	10.6	10.2	9.9	9.7
Adjusted Net Profit	(310)	216	374	354	438
YoY Gr.(%)	(223.2)	n/a	72.9	(5.4)	23.8

KEY RATIOS					
	FY09	FY10	FY11	FY12E	FY13E
Dil. EPS (Rs)	(1.6)	1.1	1.9	1.8	2.2
ROCE (%)	(3.2)	15.3	19.0	17.6	18.0
RoE (%)	(18.0)	12.4	19.4	16.2	17.5
PER (x)	n/a	13.1	7.6	8.0	6.5
EV/Net sales (x)	0.8	0.6	0.5	0.5	0.4
EV/EBITDA (x)	28.4	5.6	4.7	4.8	4.2

02 November 2011

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	2,917	2,698	2,724
YoY Gr. (%)	20.7	24.6	8.7
Op. Profits	273	284	262
OPM (%)	9.3	10.5	9.6
Adj. Net Profit	123	92	68
YoY Gr. (%)	23.7	66.0	(9.9)

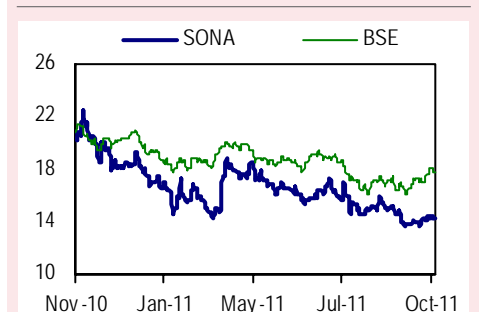
STOCK DATA

Market Cap	Rs2.8bn
Book Value per share	Rs8.4
Eq Shares O/S (F.V. Rs1)	199mn
Free Float	47%
Avg Trad. Value (6 mnths)	Rs2.2mn
52 week High/Low	Rs23/13
Bloomberg Code	SONA IN
Reuters Code	SONA.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	1.9	(15.3)	(31.1)
Relative	(4.2)	(12.7)	(16.9)

RELATIVE PERFORMANCE



Variance to PINC Estimate

(Rs mn)	Actual	Estimate	Var (%)	Comments
Net Sales	2,724	2,610	4.4	Diversification in customer base countered loss of revenue from MSIL
EBITDA	262	258	1.5	
EBITDA Margin (%)	9.6	9.9	(30)bps	Increase in overheads impacted margins
Adjusted PAT	68	79	(14.8)	Below par margins and higher interest cost lowered profits

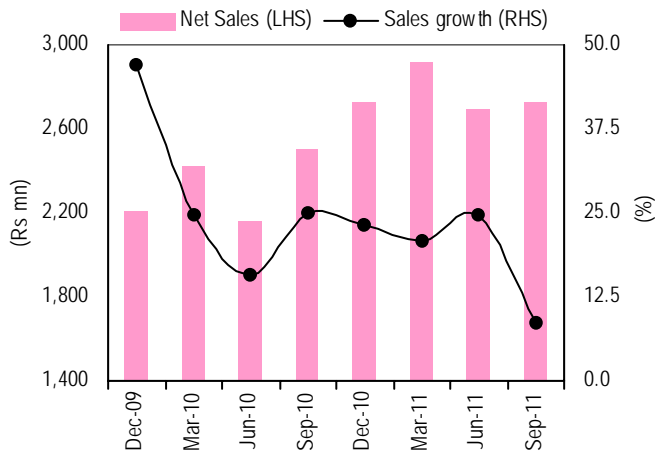
Financial Table (Standalone)

Rs. mn	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Net Sales	2,724	2,507	8.7	2,698	1.0	5,422	4,672	16.1
EBITDA	262	259	1.2	284	(7.8)	546	478	14.2
<i>EBITDA Margin%</i>	9.6	10.3	-70 bps	10.5	-90 bps	10.1	10.2	-20 bps
Other Income	11	10	7.2	14	(24.0)	25	21	20.6
Interest	95	86	10.9	85	12.0	179	167	7.7
Depreciation	79	70	13.1	77	2.6	157	138	13.4
PBT	99	113	(13.0)	136	(27.6)	235	194	21.0
Tax	31	39	(19.1)	44	(29.6)	75	64	18.2
Adj. PAT	68	75	(9.9)	92	(26.6)	160	131	22.4
Extra-ordinary Items	-	-		-		-	-	
Reported PAT	68	75	(9.9)	92	(26.6)	160	131	22.4
EPS	0.3	0.4	(9.9)	0.5	(26.6)	0.8	0.7	22.4

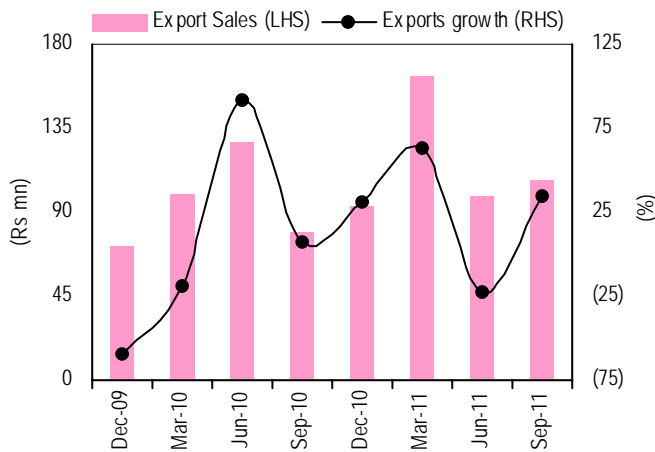
Financial Table (Consolidated)

Rs. mn	Sep-11	Sep-10	YoY (%)	Jun-11	QoQ (%)	H1FY12	H1FY11	YoY (%)
Net Sales	3,371	2,819	19.6	3,385	(0.4)	6,756	5,148	31.2
EBITDA	327	352	(7.3)	494	(33.8)	820	605	35.6
<i>EBITDA Margin%</i>	9.7	12.5	-280 bps	14.6	-490 bps	12.1	11.8	40 bps
Other Income	11	6	76.6	13	(11.9)	24	12	102.2
Interest	197	147	33.8	114	72.6	311	258	20.4
Depreciation	108	94	14.3	109	(0.9)	216	185	16.5
PBT	34	117	(71.4)	284	(88.2)	318	174	83.1
Tax	16	39	(60.1)	61	(74.3)	76	59	29.6
<i>Tax (%)</i>	32.0	33.2	-120 bps	32.0	0 bps	24.0	33.8	-990 bps
Adj. PAT	18	78	(77.0)	224	(91.9)	242	115	110.4
Minority Interest	21	(1)		67		87	(7)	
PAT for Shareholders	(3)	79	(103.2)	157	(101.6)	154	121	27.1
EPS	(0.0)	0.4	(103.2)	0.8	(101.6)	0.8	0.6	27.1

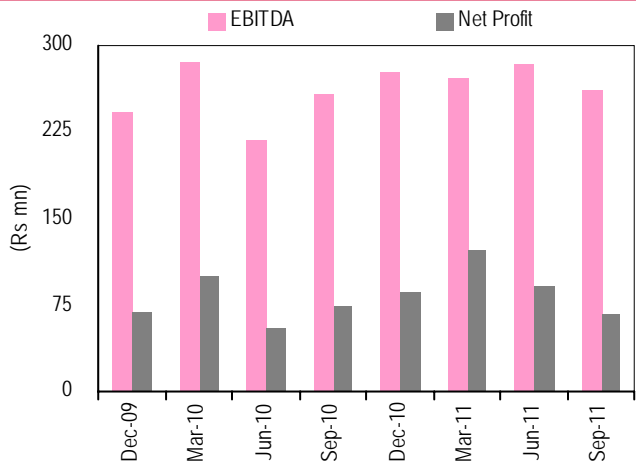
Net Sales



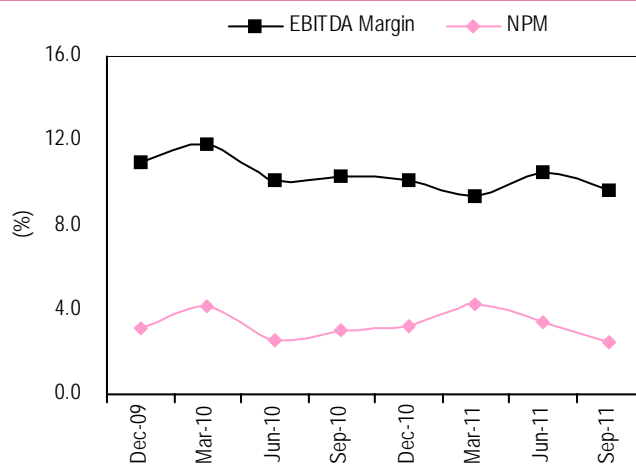
Exports



Profits



Profitability Trend



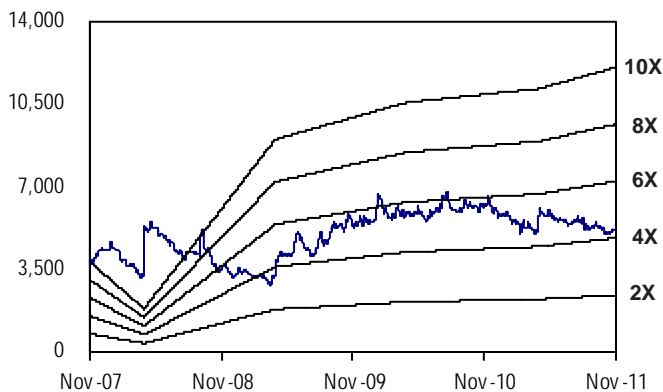
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net Sales	6,932	8,503	10,317	11,239	13,006
Growth (%)	1.4	22.7	21.3	8.9	15.7
Operating profit	156	877	1,029	1,081	1,230
Other operating income	27	25	29	35	40
EBITDA	183	902	1,058	1,116	1,270
Growth (%)	(72.3)	391.7	17.3	5.4	13.8
Depreciation	(280)	(266)	(284)	(306)	(351)
Other income	(35)	30	69	55	60
EBIT	(132)	666	843	865	979
Interest paid	(322)	(336)	(327)	(359)	(352)
PBT (before E/o items)	(453)	330	515	506	626
Tax provision	143	(113)	(141)	(152)	(188)
E/o Income / (loss)	-	-	-	-	-
Net profit	(310)	216	374	354	438
Adjusted net profit	(310)	216	374	354	438
Growth (%)	(223.2)	n/a	72.9	(5.4)	23.8
Diluted EPS (Rs)	(1.6)	1.1	1.9	1.8	2.2
Diluted EPS Growth (%)	(160.1)	n/a	72.9	(5.4)	23.8

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	(453)	330	515	506	626
Depreciation	248	227	257	306	351
Total tax paid	(7)	(2)	(70)	(137)	(198)
Chg in working capital	129	(95)	(195)	174	(366)
Other operating activities	-	-	-	-	-
Cash flow from oper. (a)	(83)	459	508	849	414
Capital expenditure	(619)	(150)	(392)	(1,140)	(310)
Chg in investments	(74)	(126)	35	25	-
Other investing activities	-	-	-	-	-
Cash flow from inv. (b)	(693)	(276)	(358)	(1,115)	(310)
Free cash flow (a+b)	(776)	183	150	(266)	104
Equity raised/(repaid)	193	0	(0)	-	-
Debt raised/(repaid)	539	(199)	(74)	450	(50)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(81)	-	(70)	(150)	(57)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	651	(199)	(144)	300	(107)
Net chg in cash (a+b+c)	(125)	(15)	7	34	(3)

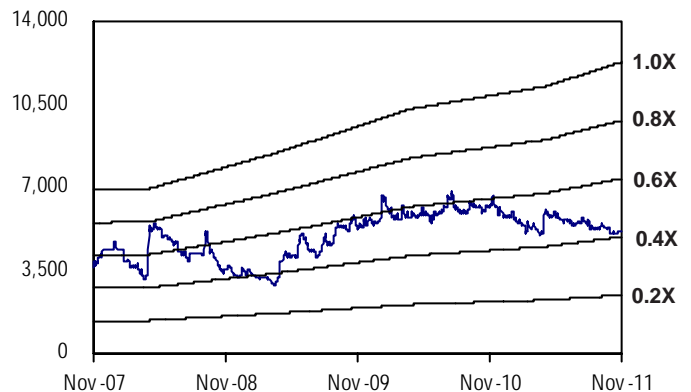
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	199	199	199	199	199
Reserves & surplus	1,468	1,615	1,839	2,136	2,484
Shareholders' funds	1,667	1,814	2,038	2,335	2,683
Preference Share Capital	-	-	-	-	-
Total Debt	2,390	2,191	2,117	2,567	2,517
Capital Employed	4,057	4,005	4,155	4,902	5,200
Net fixed assets	3,271	3,194	3,329	4,163	4,121
Cash & Cash Eq.	23	8	15	49	46
Net other Current Assets	292	317	432	351	683
Investments	587	713	679	654	654
Net Deferred Tax Assets	(117)	(228)	(299)	(314)	(304)
Total assets	4,057	4,005	4,155	4,902	5,200

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
EBITDA Margin (%)	2.6	10.6	10.2	9.9	9.7
Net margin (%)	(4.5)	2.5	3.6	3.2	3.4
Dividend yield (%)	-	2.1	4.6	1.8	2.8
Net debt/Equity (x)	1.4	1.2	1.0	1.1	0.9
Net Working Capital (days)	(13)	(6)	(2)	(7)	(1)
Asset turnover (x)	1.3	1.5	1.7	1.6	1.7
ROCE (%)	(3.2)	15.3	19.0	17.6	18.0
RoE (%)	(18.0)	12.4	19.4	16.2	17.5
EV/Net sales (x)	0.8	0.6	0.5	0.5	0.4
EV/EBITDA (x)	28.4	5.6	4.7	4.8	4.2
PER (x)	n/a	13.1	7.6	8.0	6.5
Price/Book (x)	1.7	1.6	1.4	1.2	1.1

EV/EBIDTA



EV/SALES



T E A M

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