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Q4 FY07
Result Update

Sona Koyo Steering

Outperformer

Rs 51

April 26, 2007

Strikingly impressive

Company Details		Result Snapshot	
Market Cap:	Rs 4,721	<p>Sona Koyo Steering Systems' Q4 FY07 financial performance was indeed strikingly impressive.</p> <p>The net sales growth was a stupendous 80.6% yoy, to Rs 1,765m, which translated into an 80.8% PAT growth to Rs 112m.</p> <p>The strong PAT growth was made possible—even as the EBITDA margin fell 58bp to 11.9%—by the depreciation actually dropping 10.9% to Rs 32m.</p> <p>At the reigning market price of Rs 51, the stock trades at 13.5x the FY08E fully-diluted EPS of Rs 3.8. Maintain OUTPERFORMER.</p>	
52-Week High/Low:	Rs 75 / 32		
Bloomberg Code:	SONA@IN		
Reuters Code:	SONA.BO / NS		
Shares O/s:	93m		
Average Volume (3 months):	0.2m		
Price Performance			
(%)	1m	3m	12m
Absolute	2.6	(17.7)	11.6
Relative to Sensex	(5.7)	(17.2)	(7.5)

Quarterly Table

(Rs m)

Y/e March	Q4 FY07	Q4 FY06	YoY Gr. (%)	Q3 FY07	FY06	FY07	YoY Gr. (%)
Net Sales	1,765	977	80.6	1,501	3,397	5,808	71.0
Expenditure							
Raw Material	1,291	649	99.1	1,103	2,309	4,248	83.9
<i>as % of Net Sales</i>	<i>73.1</i>	<i>66.4</i>	<i>677</i>	<i>73.5</i>	<i>68.0</i>	<i>73.1</i>	<i>516</i>
Personnel Cost	113	87	30.2	103	285	389	36.4
<i>as % of Net Sales</i>	<i>6.4</i>	<i>8.9</i>	<i>(248)</i>	<i>6.9</i>	<i>8.4</i>	<i>6.7</i>	<i>(170)</i>
Mfgr. Expenses	151	120	26.0	145	415	558	34.4
<i>as % of Net Sales</i>	<i>8.5</i>	<i>12.2</i>	<i>(370)</i>	<i>9.7</i>	<i>12.2</i>	<i>9.6</i>	<i>(262)</i>
EBITDA	211	122	72.2	150	387	613	58.3
<i>EBITDA margin (%)</i>	<i>11.9</i>	<i>12.5</i>	<i>(58)</i>	<i>10.0</i>	<i>11.4</i>	<i>10.6</i>	<i>(85)</i>
Depreciation	32	35	(10.9)	32	126	143	13.3
EBIT	179	87	106.2	117	262	471	79.9
Net Interest	22	6	290.2	21	51	82	62.5
Non-Operating Income	6	11	(49.7)	9	32	27	(15.3)
PBT	163	93	76.1	105	243	416	71.0
Tax	52	31	66.9	39	80	139	72.6
<i>Tax Rate (%)</i>	<i>31.7</i>	<i>33.5</i>	<i>(176)</i>	<i>36.9</i>	<i>33.0</i>	<i>33.3</i>	<i>32</i>
Adj. Profit after tax	111	62	80.8	66	163	277	70.2
Extraordinary Items	(1)	-	-	-	-	-	-
Reported Profit	112	62	82.4	66	163	277	70.2

(Stock price as on April 26, 2007)



Result Highlights

SKSS reported Q4 FY07 results that far exceeded our expectations. Net sales vaulted 80.6% yoy to Rs 1,765m, bringing in a similar (80.8%) growth in PAT. The PAT, at Rs 112m, outstripped our estimate of Rs 77m by a wide margin.

The strong PAT growth was made possible, even as the EBITDA margin fell 58bp to 11.9%, by the depreciation actually dropping 10.9% to Rs 32m. The EBITDA margin decrease was attributable to the EPS column supplies, which currently yield only 4% EBITDA (compared to other products that bring in margins upwards of 14%).

The company's ambitious capex program, which aims to spend nearly Rs 4bn in four years commencing FY07, has its first draw down of Rs 0.64bn in FY07. This spend has gone into additional capacities of 0.5m manual steering gears and steering columns in Chennai and Gurgaon and the EPS facility at Dharuhera. The latter is expected to commence commercial production by June 2007 (a delay from the earlier March 2007). The period FY08-09 will see Rs 1.3bn capex in each of the two years. The year 2010 will see the completion of the capex program, with a spend of Rs 0.76bn.

Exports visibility clearer

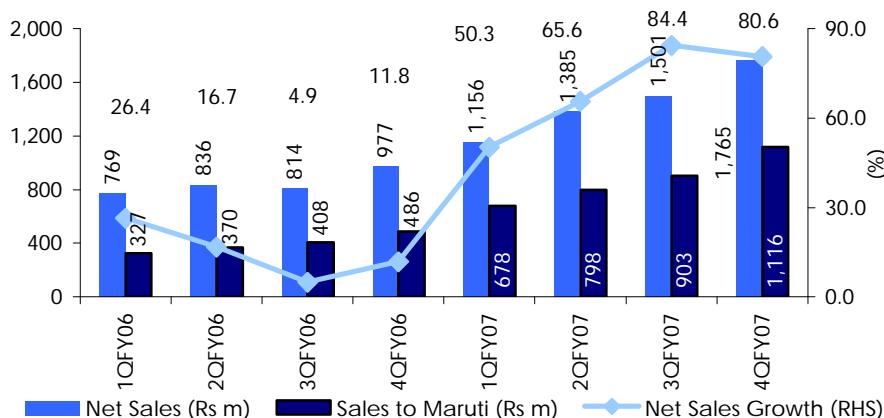
The company's efforts to get its exports off the ground in FY07 were mired by delays and the subsequent stalemate of its steering systems orders for Ezee-go. It therefore ended the year with just Rs 546.6m in exports, which were up by a mere 9.3% yoy. SKSS, which had been banking on exports as its major growth driver and had previously given 'guidance' of touching Rs 1bn in exports in FY07, has just pushed the time target by a year.

Explaining the break-up of exports, management clarified that nearly 25% would go to its collaborators, JTEKT's group companies in France, Czechoslovakia and Sweden. An additional 10% would go to Brazil, with the rest arising from North American markets to such customers as CNH, JCB and John Deere.

Sales growth and margin expansion are on the uptrend

The sales graph for SKSS is getting better and better as the chart below suggests.

Sales are just getting better

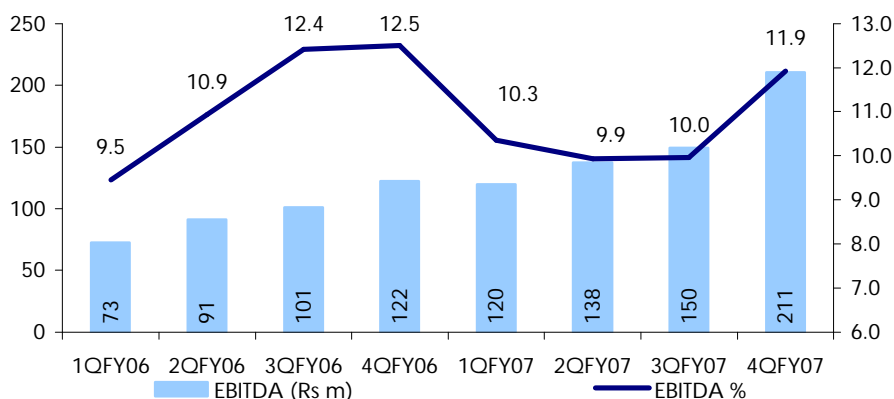


Source Company Data, PL Research



The margin trend has followed suit. Management is targeting a blended margin of 12.5% for FY08. This is achievable by the indigenisation of the EPS columns.

Margins come off the lows



Source Company Data, PL Research

We expect a top line CAGR of 34% in the next two years, driven by new orders that SKSS is scouting for, leveraging its engineering capabilities and quality commitments. We believe that SKSS should be able to surpass expectations regarding the top line. In the coming years we expect sales to stack up as below.

Incremental sales will be new-order driven

(Rs m)

	FY07 to FY08E	FY08 to FY09E
Incremental Sales	1,627	3,066
Of which		
Exports	454	500
Domestic Organic Growth	789	975
New Orders (Logan/Ace)	300	-
New Orders (Maruti/Hyundai)	-	1,200
Product Mix and Value-added Growth	84	391

Source, PL research

Estimates changed

SKSS is expected to scale up its exports to about Rs 1,000m in FY08. While maintaining our top-line estimates, we have raised our bottom line estimates by 4.6% on the back of better margins and lower taxes.

CEPS dominant growth drives margin down

	Revised Estimates		Earlier Estimates		% Revision	
	FY07A	FY08E	FY07E	FY08E	FY07E	FY08E
Net Sales (Rs m)	5,808	7,434	5,047	7,500	15.1	(0.9)
Adj. PAT (Rs m)	277	386	228	364	21.6	6.1
EPS (Rs)	2.7	3.8	2.5	3.6	9.7	4.6

Source: PL Research

Our FY09 estimates assume only a slight margin erosion.



Outlook

SKSS has been working on new models being developed by MUL (except the EPS portion, which is pinion EPS, not column EPS), Tata Motors (for the world truck, 1-lakh car and Ace), M&M (Ingenio), Nissan, Toyota and Hyundai (for the new plant). All these developments work out excellently for the company's long-term prospects.

At the ruling market price of Rs 51, the stock trades at 13.5x the FY08E fully-diluted EPS of Rs 3.8. Maintain **OUTPERFORMER**.

Key Figures

Y/e March	FY06	FY07	FY08E	FY09E
Revenues (Rs m)	3,397	5,808	7,434	10,408
EBITDA (Rs m)	387	613	844	1,166
Margins (%)	11.4	10.6	11.4	11.2
PAT (Rs m)	163	277	386	520
EPS (Rs)	1.6	2.7	3.8	5.1
PER (x)	32.1	18.9	13.5	9.6
EV / E (x)	8.5	9.2	8.6	5.9
EV / Sales (x)	1.0	1.0	1.0	0.7
RoCE (%)	11.5	16.0	14.3	14.0
RoE (%)	20.8	25.5	21.8	21.4

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