

RESULTS REVIEW

Sona Koyo Steering Systems Ltd.

Rs. 63

Q3FY07 results update

Analyst

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Nifty: 4109; Sensex: 14218**Key Stock Data**

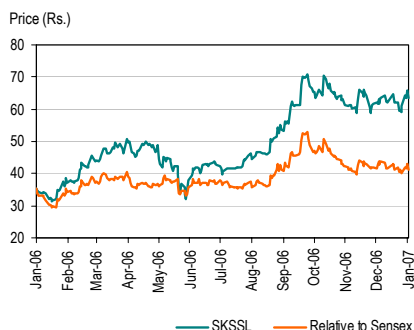
Sector	Auto Ancillaries
Bloomberg/Reuters	SONA@IN/SONA.BO
Shares o/s (m)	44
Market cap (Rs m)	2,790
Market cap (US\$ m)	63
3-m daily average vol.	114,493

Price Performance

52-week high/low	Rs75/31		
	-1m	-3m	-12m
Absolute (%)	2.3	(3.1)	79.0
Rel to Sensex (%)	(1.3)	(13.7)	25.1

Shareholding Pattern (%)

Promoters	46.69
FII's/NRIs/OCBs/GDR	0.45
MFs/Banks/FIs	3.56
Non Promoter Corporate	12.19
Public & Others	37.11

Stock vs Relative to Sensex

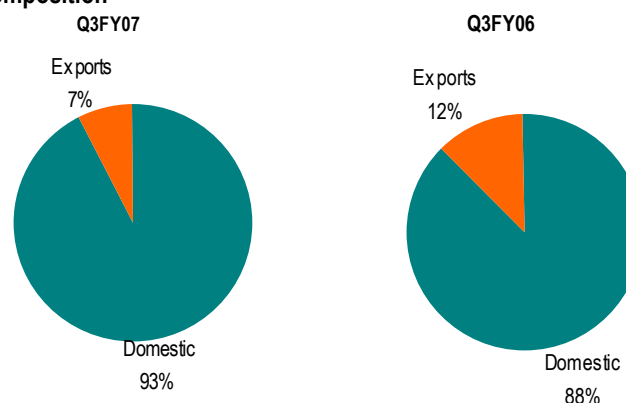
Source: Capitaline

Highlights

India's leading steering systems manufacturer, Sona Koyo Steering Systems Ltd. (SKSSL) announced better-than-expected results for Q3FY07. Total revenues shot up by 85% YoY to Rs.1,820m. EBIDTA grew by 43% YoY to Rs.145m. However, the operating margins declined by 243bps. PAT for the quarter skyrocketed 88% YoY to Rs.66m.

- Robust domestic sales drive topline growth**

The total revenues at Rs.1,820m registered a robust growth of 85% YoY on back of robust sales in the domestic market. The Domestic sales shot up by 95% YoY to Rs.1,675m when compared to Rs.859m registered in the corresponding quarter of the previous year. On the exports front, SKSSL registered a growth of 11% YoY to Rs.136m (Rs.122m).

Figure 1: Sales composition

Source: Company reports; IDBI Capital Market Services

- Sliding margins keep operating margins flat despite the growing topline**

The operating margins are down at 7.5% compared to 9.9% in the corresponding quarter of previous year. Thus we see a fall in margins by 243bps. The margins have fallen due to two main reasons, rising input costs and higher import costs associated with the EPS (Electronic Power Steering) columns.

- Strong topline growth drives bottomline**

Profit after Tax (PAT) for the quarter stood at Rs.66m posting a robust growth of 88% YoY, aided by a strong revenue growth for the company. However, the profit margins (NPM) remained flat at 3.6%.

- Aggressive capex plan**

The company has chalked out aggressive Capex plans to ramp up their capacities over the next 35 months. The capex includes setting up a facility at Dharuhera (Rs.600m) and scaling manufacturing capacities at Chennai (Rs.200m) and Gurgaon (Rs.200m) facilities.

Table 1: Production capacities

(Units)

Product	Current capacity	Post expansion
Manual steering gears	1,000,000	3,000,000
Power steering	250,000	500,000
Steering columns	1,000,000	2,000,000
EPS	0	250,000

Source: Company reports; IDBI Capital Market Services

Outlook

We continue to remain positive on the company's growth prospects, given the strong prospects for the domestic passenger car industry and the company's dominant position in its segments. Going forward, we believe that the changing product mix towards power steering business (hydraulic and electronic) will be the key driver to look out for in the coming years. The stock is trading at 20.6x its Q3FY07 annualised EPS of Rs. 3.

Table 2: Financial snapshot

(Rs. m)

Year-end: March	Q3FY07	Q3FY06	YoY (%)	FY06	FY05	YoY (%)
Net sales	1,811	982	84	4,093	3,629	13
Other income	9	4	139	32	30	7
Total income	1,820	985	85	4,125	3,659	13
Expenditure	1,675	884	89	3,713	3,288	13
EBIDTA	145	102	43	411	371	11
OPM (%)	7.5	10.0		9.3	9.4	
Interest	21	16	30	51	25	103
Depreciation	32	27	20	107	93	16
Tax	39	17	125	88	87	2
PAT	66	35	88	163	167	(2)
NPM (%)	3.7	3.6		4.0	4.6	
No. of share	88	44		44	44	
EPS (Rs.)	0.8	0.8		3.7	3.8	
CMP (Rs.)	63	63		63	63	
PE (x)	84.2	79.1		17.2	16.7	

Source: Company reports; IDBI Capital Market Services

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