

CFO's review

Delivering robust growth

DEAR SHAREHOLDERS,

At the start of FY 2021-22, the global economy was enjoying macro tailwinds in the form of the most accommodative monetary and fiscal policies ever seen. It looked like a promising year ahead despite the ascendant commodity prices, semi-conductor chip shortage and waves of multiple variants of COVID-19. Inflationary pressures were being perceived as transitory and therefore the Central banks were willing to continue with their accommodative stance for longer to support growth.

In India, we went through a terrible second wave of COVID-19 at the very start of the year affecting our domestic sales in the first quarter, though our operations continued uninterrupted. Globally, semi-conductor chip shortage kept on dogging the production of automotive companies, though not everyone was equally affected. Auto component and system suppliers which were well diversified across geographies and customers did better than the ones which were not so diversified and were also not lucky to be on the less affected models of their customers. As the year progressed, the spectre of inflation kept testing the market's conviction on transitory inflation phenomenon and the benchmark bond yields continued to trend higher. The momentum in sale of light vehicle in our key markets of US and Europe started to decline from the second quarter onwards.

KEY DEVELOPMENTS FOR US

With these industry dynamics in the background, our first year report card post-listing is out. Our Revenue and PAT grew by 36% and 68% to INR 2,131 crore and INR 362 crore respectively. The key driver of our growth was BEV market segment with sales at INR 504 crore, a growth of 145% over last year. It now constitutes 25% of our total sales against 14% last year and 2% the year before. Revenue in non-BEV market segment was INR 1,627 crore as it grew by 20%. Our robust growth numbers despite a challenging year,



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Rohit Nanda
Group CFO



once again demonstrate how the strategic clarity of thought and direction can bring qualitative and sustained growth. Our order book also grew from INR 14,000 crore at the end of 1st quarter to INR 18,600 crore as at the end of the year, 62% of it is constituted by EV orders. We now have a total of 30 EV programmes spread across 19 different customers, including 21 programmes which are part of the order book.

The company generated INR 445 crore of cash flow from operations, out of which INR 344cr were deployed in capex. The pace of capex spending during the year was slower than the initial plan due to elongated lead times. However, we do not expect this to have any adverse effect on the growth plans of the company. We will shortly be commissioning our new plant at Chakan which will give us additional capacity in the gears business to meet expanding needs of our existing and new customers.

We could also deleverage our Balance Sheet through INR 300 crore raised in the IPO by way of primary issuance. It has not only reduced our finance cost but also offers us protection in an environment of rising borrowing costs. It also offers us an opportunity to use this headroom to lever the Balance Sheet in case of a suitable inorganic opportunity.

The merger of our 100% Indian subsidiary Comstar Automotive Technologies Private Limited (Comstar) was approved by NCLT Chandigarh on 7th January 2022 with 5th July 2019 as the appointed date, being the date of its acquisition. This allows us fungibility of cash flows across the merged entities thereby improving efficiencies. The credit rating of the company was further upgraded to AA by India Ratings owing to strong fundamentals of the company. During the year, the company also received approval under the Govt of India's Production Linked Incentive (PLI) Scheme, meant to provide financial incentives to boost Advanced Automotive Technology products and attract investments in the automotive manufacturing supply chain.

Pursuing technology for growth is one of our strategic priorities, and we not only continue to pursue the technology roadmap we had laid out for ourselves but also expand it as we go along.

We've announced new technology collaborations with IRP Nexus of Israel, Enedym of Canada and C-Motive of USA. These collaborations are for developing magnet-less motors using different technologies having different power ratings and end-applications in the automotive industry. We also introduced three new products during the year along with customer orders won for these products. This pace of launch of new products with customer orders has been possible only due to the R&D investments that the company has made in the past and continues to make.

As a responsible corporate citizen, your company is cognisant of the importance of Environment, Social and Governance (ESG) aspects as three critical pillars of sustainable growth. We have therefore decided to start sharing our sustainability indicators through the Business Responsibility and Sustainability Report (BRSR) in our Annual Report from FY 2021-22 onwards, a year ahead of SEBI mandated timeline. We will follow this up with a separate and detailed Sustainability Report on GRI based indicators later this year.

OUTLOOK FOR FY 2022-23

As it stands today the global economy is facing major headwinds in the form of high inflation and rising interest rates. An expected slow-down in growth may ease off commodity prices but the key to demand revival would lie in the lowering of inflationary expectations. Meanwhile, we feel that the trend to electrify automobiles would continue to intensify as oil prices stay elevated. 62% of our order book is constituted of orders in the EV segment which should lend resilience to the trajectory of our future growth. We therefore foresee economic environment in FY 2022-23 as challenging yet promising for the company.

In the end, we would like to thank all the people who have worked tirelessly to ensure that the company's operations are run uninterruptedly to exceed the customer expectations. A special thanks to all the shareholders for reposing their trust and confidence in the growth story of Sona BLW.

Rohit Nanda
Group CFO