CFO's review

Fortifying Sustainable Growth

Dear Stakeholders,

We have had yet another year of great business performance wherein our revenue grew by 26% to INR 26,756 million and EBITDA by 25% to INR 6,958 million. A significant part of our growth in FY 2022-23 came from the start/ramp-up of new programmes in both BEV and Non-BEV segments, underscoring the importance of our orderbook for near to medium-term growth. For a fair comparison of Profit After Tax, FY 2021-22 PAT needs to be adjusted lower due to one-time income on account of certain tax matters and exceptional income whereas FY 2022-23 PAT needs to be adjusted for exceptional expenses pertaining to diligence work for NOVELIC acquisition.

Adjusted PAT thus grew by 24% to INR 3,978 million in FY 2022-23. We generated INR 5,347 million as cash from operations, of which INR 3,351 million were deployed in capex.

Our organic growth potential embodied in our orderbook requires a continuous allocation of capital for capex and we expect to meet this requirement from our operational cash flows.

Accelerating winds of change

With each passing year, we are witnessing an acceleration in the transformation of the global automotive industry due to the electrification of automobiles. Sales of BEV cars as a % of global car sales touched the 10% mark for the first time in CY2022. With the overall size of the pie (global car sales) shrinking, the stark contrast between Non-EV sales and EV sales has become glaring. From a peak of 87 million Non-electric cars sold in CY2018, the volume has shrunken by 28% to 63 million in CY2022. The BEV sub-part of the pie on the other hand grew 5x from 1.4 million in CY2018 to over 7.3 million in CY2022. Sona's (Sona BLW Precision Forgings Limited) BEV revenue over the same period has grown nearly 39 times from INR 174 million in FY 2018-19 to INR 6.71 billion in FY 2022-23, constituting 26% of its total sales and is the biggest organic growth driver for the Company.

Growth Drivers

Our belief in Electrification as a sweeping change in the automotive industry has been rewarding for us. Our total orderbook increased from INR 18.6 billion in FY 2021-22 to INR 21.5 billion in FY 2022-23 and now has a 77% share from EV orders. While execution of our orderbook will be the backbone of our growth in the near term, we are concurrently working on adding more growth drivers a medium and long-term perspective. These include the new products which we are either developing in-house or tying up with technology leaders in their respective fields. The idea is to have multiple products in our portfolio, some of which are expected to become blockbusters. We continue to deploy a meaningful part of our capital in R&D and spent about 2.7% of our revenue last year on R&D (including capital expenditure).

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During FY 2022-23, noteworthy order wins from our new products included orders to supply, EDL (Electronically locking differential) for an Electric SUV and Differential Assembly along with intermediate gears and input shaft for a Class 4 Electric CV. For the long-term investors, I believe these should be seen as more than mere order wins since these demonstrate the Company's ability to customise and build new products to the needs of the customers, providing longevity to the Company's growth potential.

We also announced a technology licensing agreement with a UK-based company Equipmake for the manufacture and sale of drive motors, inverters and drive trains in the power range of 100kW to 440 kW for electric cars, buses, commercial vehicles and off-road vehicles in certain agreed territories. This is an example wherein we collaborated with a proven technology partner to fast-track our entry into a new market segment.

With the changing landscape of mobility, there are new opportunities arising from an increase in the degree of autonomy and intelligence required by vehicles. These areas amongst others include more software and the next level of sensing requirements. Sona sees these as potentially large areas of growth in the medium to long term and therefore has taken its first step in this direction by announcing a deal to acquire a majority stake (54%) in NOVELIC, a Serbia-based company, which specialises in mmwave radar sensing, perception solutions and full stack embedded systems. NOVELIC stands out in the crowd of technology companies for being continuously profitable right from the first year of its operations and is expected to be EPS accretive for us from the year of its acquisition itself. This will be our third business besides Driveline and Motor businesses and should be seen as a potential growth driver from a medium to long-term perspective.

Sustainability

While talking about the long-term growth drivers, it is impossible to not mention 'sustainability'. Our vision statement reflects our aspiration to become one of the world's most respected and valuable auto technology companies for our key stakeholders and ESG focus is a pre-requisite for any company to earn both respect and value. For us, one of the high-priority sustainability goals is to support low-carbon mobility by achieving 45% of our revenue from EVs by 2026. Besides, we have taken SDG-linked goals for reduction in specific energy and water consumption, Scope 1 and Scope 2 emissions, waste management etc. Social and governance goals include targets for an increase in women's share in the workforce and ensuring gender pay parity etc.

Outlook

Peeking into FY 2023-24, the global macroeconomic scenario appears to be constrained due to a combination of high-interest rates and high inflation. In the aftermath of fiscal and monetary stimulus introduced by the governments and the central banks to counter the pandemic-led economic slowdown, the inflation genie had got unleashed. Consequently, the central banks had to embark on a steep rate hiking cycle during FY 2022-23. While it is being argued that the interest rate hiking cycle may be nearing an end, it is also possible that the inflation stays elevated for some time and therefore rate cutting cycle may get postponed. This is likely to affect interest rate-sensitive industries like automotive adversely. Therefore, it may be fair to assume that in FY 2023-24 as well, the industry tailwinds would be missing and thus our orderbook and NOVELIC acquisition are likely to be the key growth drivers for us.

Finally, one big change which deserves a mention is the fact that Sona became a majority public-owned company in FY 2022-23. We are cognizant of the increased weight of responsibilities and expectations this brings upon the management team. We continue to be driven by Sona's core values of Integrity, Agility, Vitality and Frugality. These values have helped us build this company into what it is today, and we are confident that their relevance will continue to resonate in our actions in future as well.

Warm regards

Rohit Nanda
Group CFO