Reflecting on a record-breaking year

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Rohit Nanda
Group Chief Financial Officer

Dear Shareholders,

Our Performance

The financial year 2023-24 was another year of spectacular performance for your company, with net profit growth of 31% to INR 5,173 million and revenue growth of 19% to INR 31,848 million. Adjusted for increased ESOP cost and exceptional expenses related to the NOVELIC acquisition, profit after tax grew by 34% to INR 5,348 million. EBITDA margin improved to above 28% during the year thanks to an improved product mix, operational efficiencies, and benign input costs. BEV revenue grew by 32%, and its share of total revenue increased to 29% for FY2024. Given that 79% of our order book consists of EV programs, the share of EVs in our revenue is expected to continue to grow in the years to come. The year also saw a strong operational cash flow generation of INR 6,928 million, of which INR 3,191 million was deployed in capex and INR 1,793 million distributed to shareholders as dividend besides largely funding the first tranche of consideration INR 2,110 million for the acquisition of NOVELIC.

Medium-term growth drivers

Our short to medium-term growth will continue to come from the consumption of our large order book of INR 226 billion and the underlying market growth. Since our listing in 2021, we have developed eight new products (including one product during FY2024), for which we have won confirmed orders from various customers. Of the INR 207 billion of new order wins in this period, ~50% have come from these new products. Our strategic focus on increasing market share in our core products and developing new products has augured well for us.

Long-term growth drivers

From a medium to longer-term perspective, we have a technology cum product roadmap that has been developed at the intersection of mobility as a spectrum (broadened from automotive earlier) and E.P.I.C (electric, personalised, intelligent, and connected) as the technology framework. Our long term strategy involves a three-pronged approach: developing new products in-house using our core capabilities in making gears and motors (for example, we have developed eight new products in the last three years), forming technology partnerships to expedite our progress on the product roadmap (such as our partnership with Equipmake Plc), and acquiring companies to expand our portfolio of products/capabilities (like our acquisition of NOVELIC).

During the year, we successfully completed the acquisition of a 54% stake in NOVELIC. This brings capabilities, in mm-wave radar sensing and perception besides chip designing, to Sona. This technology-led strategic acquisition is expected to establish a third pillar for the company's long-term growth. Additionally, we announced setting up of a new plant in Mexico to better serve our current customers and expand our presence in North America. We have also made the decision to repurpose our existing plant in China to focus on the production of other types of motors (traction/suspension) going forward.

Other developments

In the past year, we introduced a new Employee Stock Option Plan (ESOP 2023) to retain and incentivise employees, aligning their interests with the long-term goals of the company and its shareholders. The plan covers around 90 employees, with options vesting over four years in equal tranches. These options were granted at the market price on the grant date, aligning employees with the potential value creation for all stakeholders going forward. Accounting for the ESOP grants will result into a non-cash impact in the company's profit and loss statement over four years, starting from October 2023. The P&L impact of these stock options during FY 2023-24 was INR 147 million.

Capital allocation

Some of our investors have asked us about the company's capital allocation strategy. I would like to use this opportunity to share some key points to help you understand it from the company's perspective. Based on our current product mix and an estimated EBITDA margin range of 26-28%, we anticipate that our internal cash flow generation will be adequate to finance the capital expenditure needed for the growth envisaged in our orderbook, while also distributing 25-33% of profits to shareholders as dividends annually. Our return on equity and capital employed remains robust, exceeding 25%. This capital allocation strategy may require adjustments as and when we pursue an inorganic opportunity.

Sustainability

Some of the key highlights in terms of sustainability include the addition of 959.5 KwP of rooftop solar capacity, a commitment to establish 18.85 MwP of solar power through captive/group captive route in Haryana and Maharashtra, a 13% reduction in water intensity, and an improvement in our Diversity indicator attributed to an increase in the female workforce from 3% to 6% this year. We also increased our share of Revenue from BEVs in FY2024 to 29% compared to 26% in FY2023.

Outlook for FY2024-25

Global macro-economic outlook for FY2025 appears to be mixed with USA and Indian economies continuing to do well whereas Europe having slowed down considerably. Interest rates continue to stay high across all markets. More importantly the market narrative is tilting towards interest rates staying higher for longer even if rate cutting cycle was to begin in this calendar year. For our business this means that the macros are mixed and there may not be any economic tailwinds this year. For our growth, we shall continue to rely more on our order conversion into revenue than the underlying growth in the automotive market for yet another year.

Warm regards,

Rohit Nanda
Group Chief Financial Officer