

Healthy performance, fundamental levers for growth...

About stock: Sansera Engineering (SEL), established in 1981, is a Bengaluru based engineering led integrated manufacturer of critical precision forged components (engine, non-engine oriented) for end application in predominantly auto domain.

- FY22 geography mix: India 63%; Europe: 24%; US: 9%; Others: 4%
- FY22 end-user mix: auto ~83%; non-auto ~11%; auto-tech & EVs ~6%

Q2FY23: SEL reported a healthy performance in Q2FY23.

- Consolidated sales rose 19% QoQ to ₹ 634 crore
- EBITDA was at ₹ 106.2 crore with margins down 20 bps QoQ to 16.8%
- Consolidated PAT was up 35% sequentially to ₹ 46 crore
- For the quarter, domestic operations outperformed the mellow export show

What should investors do? SEL's price has corrected ~10% since listing from ~₹ 818 levels in September 2021, underperforming the wider Nifty Auto index.

- We maintain **BUY** rating amid robust order book, strong export order wins, precision engineering capabilities and tendency to outrun industry growth

Target Price and Valuation: We value SEL at ₹ 860 i.e. 22x P/E on FY24E EPS of ₹ 38.8, building in 15%, 25% sales, earnings CAGR, respectively, in FY22-24E.

Key triggers for future price performance:

- With a robust order book in domestic as well as global space amounting to peak annual revenues of ~₹ 1,420 crore amid marquee OEMs as its key clients (including Boeing), we expect sales to grow at 15% over FY22-24
- With cooling off commodity prices, improved product mix & operating leverage at play, we see margins stabilising at ~18.2% mark by FY24E
- Strong focus on de-risking the ICE portfolio with five year sales target at 25% from non-auto & 15% from auto-tech agnostic and xEVs
- Healthy b/s, with debt at ~₹ 670 crore (H1FY23) with debt: equity at ~0.6x and consistent positive cash flow from operations (>₹ 200 crore per annum), RoCE, RoE are expected at ~15.1%, 14.6%, respectively, by FY24E

Alternate Stock Idea: In our auto universe, we also like Mahindra & Mahindra.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,590



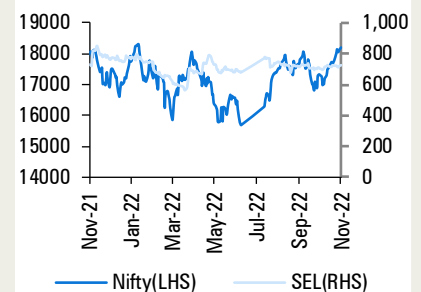
Particulars

Particulars	₹ crore
Market capitalisation	3,886
Total Debt (FY22)	645
Cash & Investment (FY22)	51
EV (₹ crore)	4,480
52 week H/L (₹)	890 / 548
Equity capital (₹ crore)	10.4
Face value (₹)	2.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	36.1	36.0	35.7	35.5
FII	43.2	42.5	41.3	39.6
DII	11.7	12.6	14.4	16.0
Other	9.0	8.9	8.7	8.9

Price Chart



Recent Event & Key risks

- Reports healthy Q2FY23 results
- Key Risk:** (i) Susceptible to higher than expected electrification in 2-W, (ii) slower than anticipated margin improvement

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	3 year CAGR (FY19-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	1,624.4	1,457.2	1,549.3	1,989.0	6.9%	2,283.6	2,628.3	15.0%
EBITDA	289.1	224.7	272.1	333.6	4.8%	387.1	477.0	19.6%
EBITDA Margins (%)	17.8	15.4	17.6	16.8		17.0	18.2	
Net Profit	96.2	80.3	108.0	130.4	10.6%	149.9	202.5	24.6%
EPS (₹)	18.4	15.4	20.7	25.0		28.7	38.8	
P/E	40.4	48.4	36.0	29.8		25.9	19.2	
RoNW (%)	15.2	10.5	12.3	12.7		13.0	15.1	
RoCE (%)	14.3	8.2	10.5	11.3		12.6	14.6	

Key takeaways of recent quarter & presentation highlight...

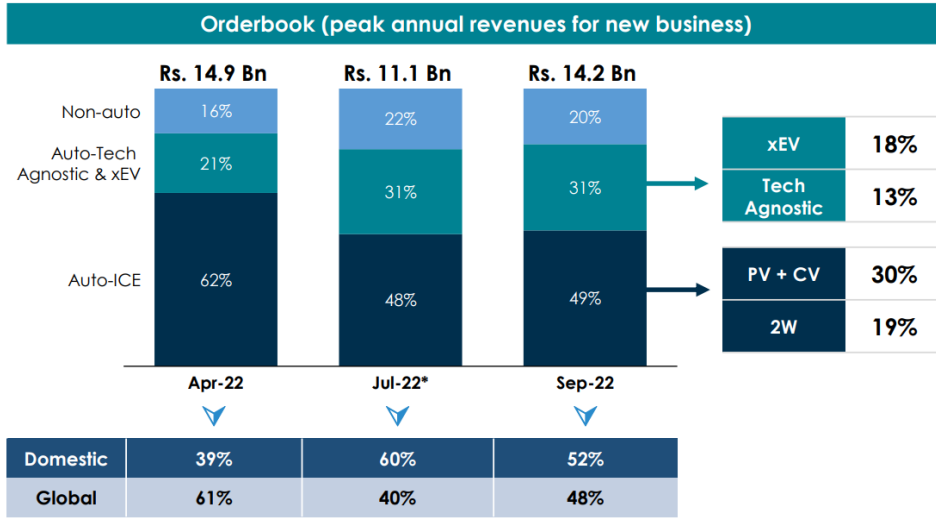
Q2FY23 Results

- Total operating income for the quarter came in at ₹ 634 crore, up 19% QoQ
- Reported EBITDA for Q2FY23 was at ₹ 106.2 crore up 18% QoQ with corresponding EBITDA margins at 16.8%, down 20 bps QoQ
- Consequently, PAT came in at ₹ 46 crore, up 35% QoQ
- The management said margin performance was muted due to subdued demand in exports and commodity cost for H1FY23 being booked in Q2FY23

Q2FY23 Earnings Conference Call highlights

- SEL, during the quarter, received a long term (six year) order from an American company in non-auto space with peak revenue potential of ₹ 25 crore. It also received an order from a global auto OEM with peak annual revenues of ₹ 130 crore (total order value pegged at ~₹ 700 crore over six years)
- The company witnessed highest ever quarterly revenue despite exports being subdued mainly riding on strong domestic demand amid festive cheer
- SEL, during Q2FY23, started commercial deliveries of connecting rods to Tata Motors and Eicher Motors and is in discussions for more components
- The company expects outperformance in aerospace & defence business and expects these segments to grow 35-40% in FY23E. Further, the management expects aerospace business to achieve ~₹ 200 crore topline by FY26E backed by new facility in Bengaluru ready for mass production by April 2024
- Dip in margin was due to muted exports, which the management expects to pick up in Q4FY23E. Overall, the management expects revenue from the international business to remain at 35-38% topline
- The management said MTM loss was ~₹ 60 lakh due to forex movement
- SEL guided that Q3FY23 is expected to be muted in terms of operating leverage as plants will go for annual maintenance with margins to be ~17% mark. Further, during Q4FY23, operating leverage is expected to be higher than Q2FY23 amid an uptick in domestic as well as export markets
- Sales in Sweden is expected to be subdued in FY23E due to a change in procurement strategy at one of its major OEM clients. Also, the management expects margins to be in the double digit range in FY24E from current 7%
- SEL has ~12 customers for xEV components with ~18% of order book comprising xEV components and sales of same pegged at ~3% in Q2FY23
- Decline in gross margin to the extent of 1.3-1.4% due to base effect i.e. passing on of commodity cost to customers, ~0.5% due to reduced exports
- Order book as of Q2FY23 was at ~₹ 1,420 crore of peak revenues vs. ~₹ 1,100 crore of peak revenues as of Q1FY23

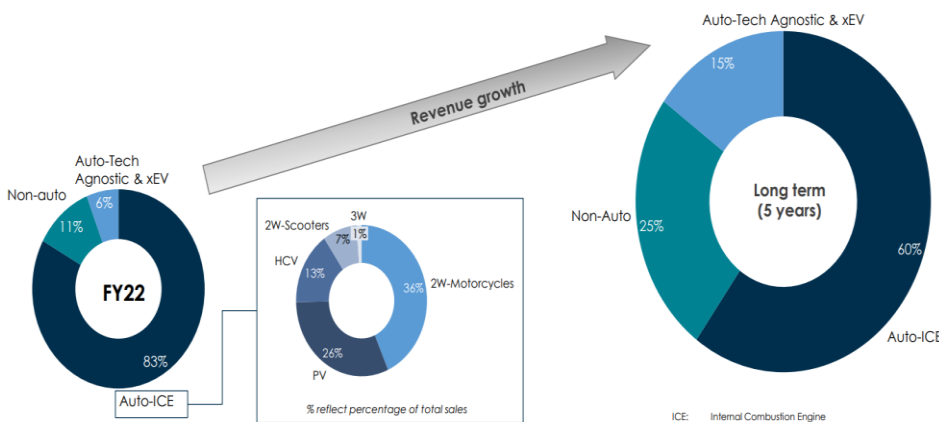
Exhibit 1: Order book as of H1FY23



Orders from ICE have been seen reducing with greater shift seen towards non-auto & xEV products

Source: Company, ICICI Direct Research

Exhibit 2: Future diversification targets - vision



The company continues to maintain its focus on deleveraging ICE dependence

Source: Company, ICICI Direct Research

Exhibit 3: Update on electrification

Sansera endeavors to be ahead of the curve in the EV space with a clear emphasis and focus on development of a new mobility world

- ◆ Wealth of experience in ICE providing solid foundation for growth in the EV space
- ◆ Strong R&D and design capabilities to meet the requirements of both OEMs and new-age players in the EV space
- ◆ Broader product portfolio with a higher kit value
- ◆ Leveraging longstanding relationships with OEMs to increase penetration
- ◆ Recent wins with marquee global customers demonstrate momentum

12* xEV Customers	7 (2W) 3 (PV) 2 (CV)
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18% of orderbook	2.9% Of Q2FY23 Sales
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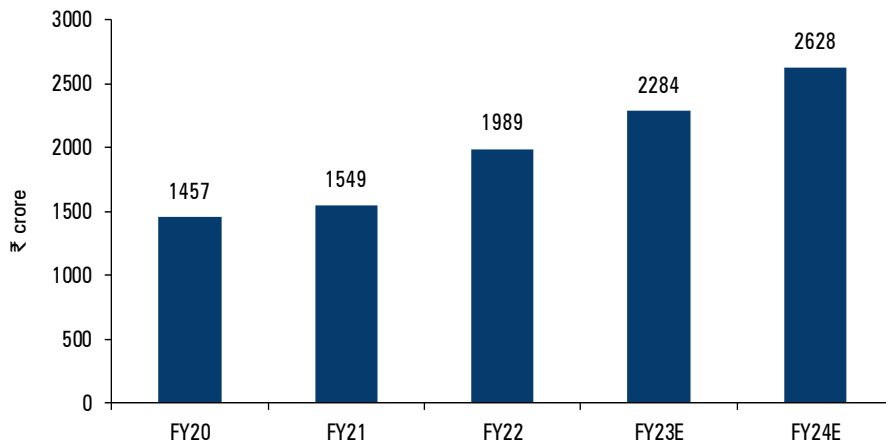
Sansera business from key Scooter OEMs

Category	Peak Content per Vehicle (Rs.)	Customers
Traditional comps	1,467	4 Customers
Tech Agnostic/xEV components	1,824	6 Customers

Source: Company, ICICI Direct Research

Key Financial charts

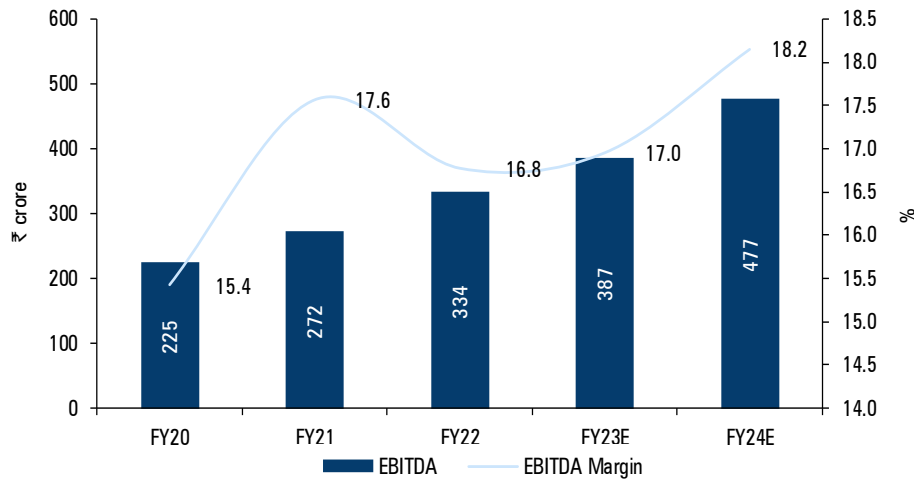
Exhibit 4: Trend in topline



Net sales are expected to grow at 15% CAGR over FY22-24E at ₹ 2,628 crore as of FY24E

Source: Company, ICICI Direct Research

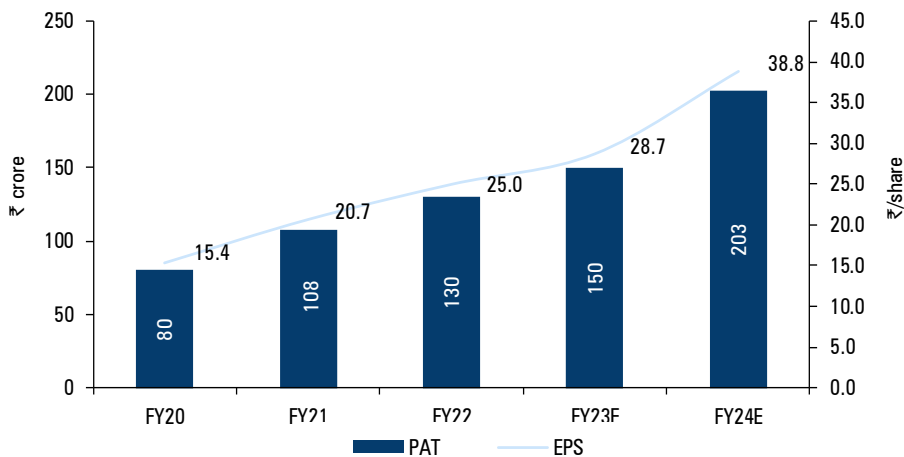
Exhibit 5: Trend in EBITDA & margins



EBITDA is expected to grow at 19.6% CAGR over FY22-24E to ₹ 477 crore in FY24E with margins reaching 18.2% as at FY24E

Source: Company, ICICI Direct Research

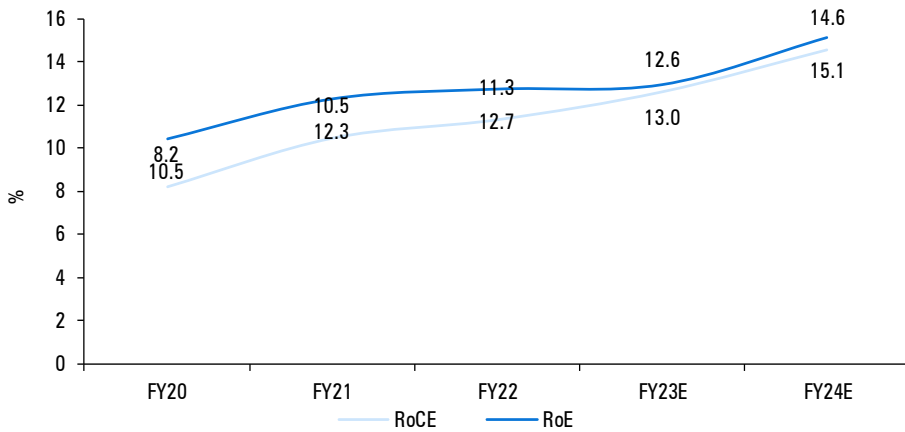
Exhibit 6: Trend in bottomline & EPS



PAT is expected to rise to ₹ 203 crore in FY24E with corresponding EPS seen at ₹ 38.8 in FY24E

Source: Company, ICICI Direct Research

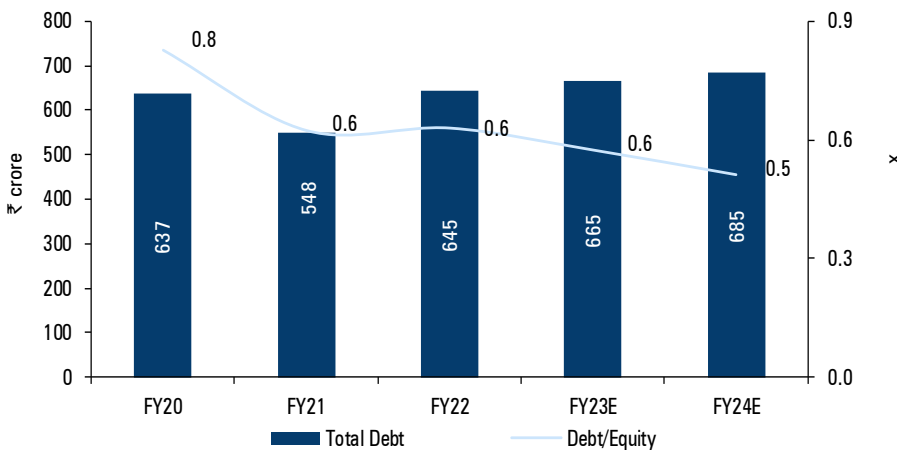
Exhibit 7: Trend in return ratio



The company is expected to report healthy double digit ratios of ~15% by FY24E

Source: Company, ICICI Direct Research

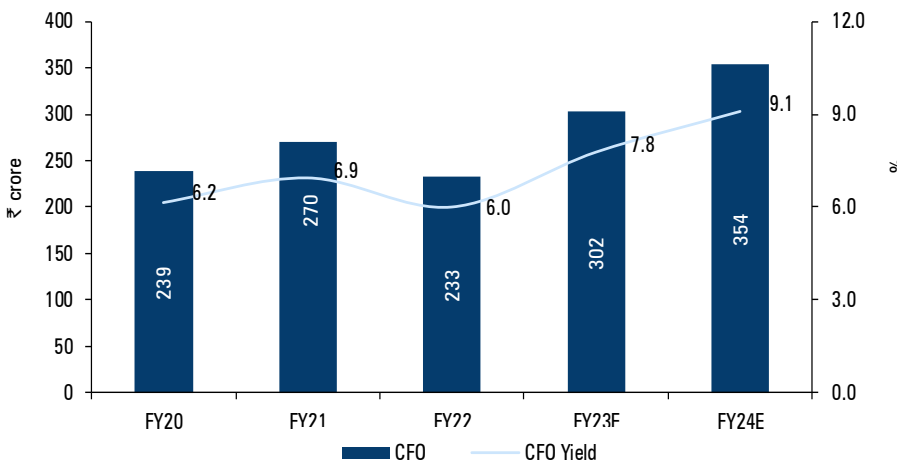
Exhibit 8: Debt trajectory and consequent debt: equity ratio



Debt/equity is seen declining to 0.5x by FY24E with absolute debt rising marginally to ~₹ 685 crore levels

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow from operations (CFO) trend and consequent cash flow yield



Cash generation at SEL has been healthy with CFO coming in at >₹ 200 crore on consistent basis offering an average CFO yield of ~7%, acting as a good margin of safety to our investment thesis

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	1549.3	1989.0	2283.6	2628.3
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1,549.3	1,989.0	2,283.6	2,628.3
Growth (%)	6.3	28.4	14.8	15.1
Raw Material Expenses	849.7	1,098.3	1,267.4	1,453.5
Employee Expenses	213.8	277.4	303.7	328.5
Other Operating Expense	213.7	279.8	325.4	369.3
Total Operating Expenditure	1,277.2	1,655.4	1,896.5	2,151.3
EBITDA	272.1	333.6	387.1	477.0
Growth (%)	-9.2	22.6	16.0	23.2
Depreciation	101.7	119.7	128.8	148.8
Interest	47.4	51.0	63.2	65.1
Other Income	23.1	15.5	10.0	13.0
PBT	146.1	178.4	205.1	276.1
Exceptional Item & MI	1.9	1.4	3.5	4.0
Total Tax	36.3	46.5	51.7	69.6
PAT	108.0	130.4	149.9	202.5
Growth (%)	-30.3	20.8	14.9	35.1
EPS (₹)	20.7	25.0	28.7	38.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	108.0	130.4	149.9	202.5
Add: Depreciation	101.7	119.7	128.8	148.8
(Inc)/dec in Current Assets	-52.5	-99.7	-97.8	-122.0
Inc/(dec) in CL and Provisions	65.5	32.0	58.3	59.3
Others	47.4	51.0	63.2	65.1
CF from operating activities	270.0	233.5	302.5	353.7
(Inc)/dec in Investments	0.5	-7.3	0.0	0.0
(Inc)/dec in Fixed Assets	-153.6	-294.3	-250.0	-300.0
Others	10.4	-7.2	5.5	14.0
CF from investing activities	-142.7	-308.8	-244.5	-286.0
Issue/(Buy back) of Equity	0.0	-9.5	0.0	0.0
Inc/(dec) in loan funds	-88.5	96.9	20.0	20.0
Dividend & interest	-47.4	-61.4	-78.8	-86.0
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	2.1	34.6	0.0	0.0
CF from financing activities	-133.8	60.6	-58.8	-66.0
Net Cash flow	-6.5	-14.8	-0.9	1.7
Opening Cash	71.6	65.1	50.3	49.5
Closing Cash	65.1	50.3	49.5	51.2

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	9.4	10.4	10.4	10.4
Reserve and Surplus	868.9	1,013.0	1,147.3	1,328.9
Total Shareholders funds	878.2	1,023.4	1,157.7	1,339.4
Total Debt	548.3	645.1	665.1	685.1
Deferred Tax Liability	61.8	64.2	64.2	64.2
Minority Interest / Others	138.2	154.0	157.5	161.5
Total Liabilities	1,626.5	1,886.7	2,044.5	2,250.2
Assets				
Gross Block	1,446.0	1,678.3	2,000.7	2,250.7
Less: Acc Depreciation	356.8	476.5	605.2	754.0
Net Block	1,089.2	1,201.8	1,395.5	1,496.7
Capital WIP	60.4	122.4	50.0	100.0
Total Fixed Assets	1,149.7	1,324.2	1,445.5	1,596.7
Investments	42.0	48.7	48.7	48.7
Inventory	248.6	277.6	312.8	360.0
Debtors	313.0	408.6	469.2	540.1
Loans and Advances	28.5	4.1	4.7	5.4
Other Current Assets	55.5	54.9	56.2	59.4
Cash	65.1	50.3	49.5	51.2
Total Current Assets	710.6	795.5	892.4	1,016.1
Current Liabilities	227.0	265.3	312.8	360.0
Provisions	25.1	19.3	22.8	26.2
Current Liabilities & Prov	302.3	334.3	392.6	451.9
Net Current Assets	408.3	461.2	499.8	564.2
Others Assets	26.6	52.6	50.6	40.6
Application of Funds	1,626.5	1,886.7	2,044.5	2,250.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	20.7	25.0	28.7	38.8
Cash EPS	40.2	48.0	53.4	67.4
BV	168.4	196.2	222.0	256.8
DPS	0.0	2.0	3.0	4.0
Cash Per Share	12.5	9.7	9.5	9.8
Operating Ratios (%)				
EBITDA Margin	17.6	16.8	17.0	18.2
PAT Margin	7.0	6.6	6.6	7.7
Inventory days	58.6	50.9	50.0	50.0
Debtor days	73.7	75.0	75.0	75.0
Creditor days	53.5	48.7	50.0	50.0
Return Ratios (%)				
RoE	12.3	12.7	13.0	15.1
RoCE	10.5	11.3	12.6	14.6
RoIC	11.4	12.5	13.3	15.6
Valuation Ratios (x)				
P/E	36.0	29.8	25.9	19.2
EV / EBITDA	16.1	13.4	11.6	9.5
EV / Net Sales	2.8	2.3	2.0	1.7
Market Cap / Sales	2.5	2.0	1.7	1.5
Price to Book Value	4.4	3.8	3.4	2.9
Solvency Ratios				
Debt/EBITDA	2.0	1.9	1.7	1.4
Debt / Equity	0.6	0.6	0.6	0.5
Current Ratio	2.6	2.6	2.5	2.5
Quick Ratio	1.6	1.6	1.6	1.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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