

Healthy orderbook, diversification strategy merits BUY

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

- End-user mix: Auto ICE~78%; non-auto~12%; Tech agnostic & EVs~10%
- FY23 geography mix: India ~72%; Europe ~17%; US ~7%; Others ~4%
- FY23: Auto ICE: Motorcycle ~36%, Scooter ~8%, PV ~23%, CV ~11%

Investment Rationale

- Robust order book, poised to grow healthy double digit in FY23-25 Sansera Engineering is a leading auto component player manufacturing precision forged components like connecting rods, rocker arm, crankshaft, etc. in the Auto ICE domain; suspension parts, braking system components and aluminium forged components in the Auto Tech agnostic domain, drive train components in the EV domain and structured parts in the non-auto space (Aerospace, Defence, Off-Road segment, others). Post the covid low's, sales at SEL have grown at 17% CAGR over FY20-23 with company on consistent basis outperforming the underlying domestic automobile space. With robust order book pegged at ₹1,930 crore of peak annual revenues for new business, we expect the outperformance trend to continue with SEL poised to clock sales CAGR of 16.6% over FY23-25E.
- Serious intent to derisk ICE portfolio, non-auto domain to outgrow As of FY23, SEL realises ~78% of its sales from Auto-ICE segment which is susceptible to EV risk (scooter segment exposure at 8%; real EV risk) while it realises rest 10% and 12% of sales from Auto Tech Agnostic & EV segment and non-auto segment respectively. Sensing relatively higher ICE exposure, SEL is consciously working on de-risking itself with target to reduce auto-ICE share of sales to 60% and augment share of tech agnostic-auto and non-auto share of sales to 20% each. SEL is making tangible progress on this front and is winning new orders in the non-ICE domain. With new manufacturing plant in place, it is counting on aerospace & defence domains to largely outgrow its base business.

Rating and Target Price

- We have a positive view on Sansera Engineering primarily tracking robust order book, strong export order wins, long tenure client relationships, precision engineering capabilities and tendency to outrun industry growth
- It is also a beneficiary of China+1 as well as vehicle lightweighting theme
- We assign BUY rating to Sansera Engineering with target price placed at ₹1,100 wherein we have valued the company at 22x PE on FY25E EPS.



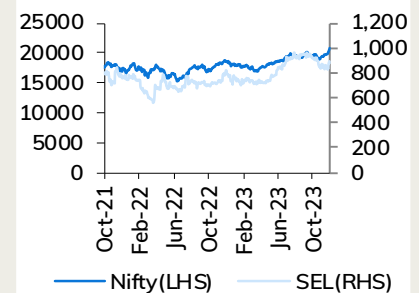
Particulars

Particulars	₹ crore
Market capitalisation	4,711
Total Debt (FY23)	712
Cash & Investment (FY23)	62
EV (₹ crore)	5,361
52 week H/L (₹)	998 / 697
Equity capital (₹ crore)	10.6
Face value (₹)	2.0

Shareholding pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoter	35.5	35.5	35.2	35.2
FII	38.5	38.1	30.3	29.0
DII	16.9	17.0	24.3	25.1
Other	9.1	9.4	10.2	10.7

Price Chart



Recent Event & Key risks

- Reports stable Q2FY24 results
- Sales/PAT expected to grow at 16.6%/34.6% CAGR over FY23-25. EBITDA margins seen at 18%.
- Key Risk: (i) slower than anticipated topline growth amidst muted exports, (ii) pressure on margins amid adverse RM costs

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23	4 year CAGR (FY19-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	1,624.4	1,457.2	1,549.3	1,989.0	2,338.3	9.5%	2,760.0	3,177.2	16.6%
EBITDA	289.1	224.7	272.1	333.6	377.0	6.9%	476.1	571.9	23.2%
EBITDA Margins (%)	17.8	15.4	17.6	16.8	16.1		17.3	18.0	
Net Profit	96.2	80.3	108.0	130.4	146.2	11.0%	200.3	264.9	34.6%
EPS (₹)	18.4	15.4	20.7	25.0	27.6		37.8	50.0	
P/E	48.2	57.8	43.0	35.6	32.2		23.5	17.8	
RoNW (%)	15.2	10.5	12.3	12.7	12.5		14.8	16.6	
RoCE (%)	14.3	8.2	10.5	11.3	11.8		14.4	16.3	

Company background...
























Sansera Engineering is an engineering led precision component manufacturing company based out of Bangalore. It has 17 manufacturing plants (16 in India and 1 in Sweden; in close proximity to customers) with over four decades of successful development of complex and mission critical products for the automotive space across vehicle categories as well as geographies. Top 5 customers constitute bulk 51% of sales at SEL as of FY23 with its total customer count at 96 across auto & non-auto segments spread across 27 countries. SEL counts all major OEMs as its clients, with notable ones being Bajaj Auto, HMSI, Yamaha in 2-W space; Maruti Suzuki and Toyota Motors in PV space & Boeing in aerospace among others. SEL has a history of successful client relationships with 40% of its sales coming from clients wherein its relationship is for >20 years; 20% comes from clients wherein the relationship is >10 years and 40% comes from clients wherein the relationship is <10 years with client addition a continuous process at the company. Domestically it counts itself as the largest supplier of connecting rods, rocker arms and gear shifter forks for the 2-W space while globally it counts itself as among top 10 supplier of connecting rods in the Light Vehicles and Commercial Vehicles category.

Exhibit 1: Sansera Products across Auto -ICE segment

	Two - Wheelers			Passenger Vehicles		Commercial Vehicles		
Product Offerings	 Roller RA	 Integral CR	 Crankshaft	 Fractured CR	 Split CR	 Fractured CR	 Split CR	 Gear Shifter Fork
	 Integral Crankshaft	 GSF	 Balance Shaft	 Rocker Arm (DLC)	 Gear Shifter Fork			
Sales Mix H1 FY24	Motorcycles 35.1%		Scooters 5.8%		24.1%			10.1%
Q2 FY24	35.0%		5.9%		24.5%			9.4%
Key Customers (Indian and Global)	Indian › All major Two Wheeler OEMs		Global › European, US and Japanese premium Two-Wheeler OEMs		Indian › Major Japanese and European PV OEMs › Indian multinational automotive manufacturing company		Global › Leading North American and European PV OEMs › Global Tier 1 Supplier	
					Indian › Leading Indian and European OEMs › Global supplier of actuation and motion control systems		Global › Leading European, Japanese and US OEMs › Global suppliers of braking systems	

Source: Company, ICICI Direct Research

Exhibit 2: Sansera Products across Non-Auto, EV and Tech Agnostic Segments

	Tech-Agnostic			xEV		
Product Offerings	2W / e-2W  Suspension Parts	PV / Hybrid / B-EV  Steering Parts	CV  Chassis Components (Cabin Tilt System)	2W  Drive Train Part	PV  Drive Train Part	CV  Transmission Parts
	 Stern Comp Steering	 Tow Hook	 Braking System Components	 Rotor Parts	 Drive Train Part	 Spring Bracket
	 Aluminium forged parts	 Braking System Component	 Integral Crankshaft (Braking System)			 Differential Lock Hook
Product Offerings	Aerospace & Defence  Seating parts	Off-road  Fractured Split	Agriculture  Fractured CR	Others  Fractured CR		
	 Aerostructure Parts	 Gear Shifter Fork	 Cam Shaft	 Integral Crankshaft (Stationary Engine)		
	 Door assembly	 Crankshaft	 Pump Barrel	 Crankshaft		
	 Lighting parts	 Rocker Arms		 Pump Barrel		
	 Cargo systems					

Source: Company, ICICI Direct Research

The company has recently inaugurated a new facility in Aerospace and Defence domain with revenue potential of ₹ 350 crore vs. segmental revenues for this space as of FY23 pegged at ₹ 91 crore and orderbook placed at ₹ 121 crores.

In March 2023, the company has also made strategic investment in MRRFIC Technology Private Limited for ~₹20 crores where in company will get ~21% equity stake in the target company with right to increase its stake to 51%. MRRFIC is a Research, Design and Manufacturing entity, building sub-systems for next generation Radars by leveraging machine learning with artificial intelligence and, mm-Wave Sensors with hybrid beam forming capabilities.

MMRFIC Radar technology has applications in healthcare, defence, Aerospace, 5G as well as automotive (ADAS). We believe this acquisition though small in size is big on capabilities and would help the company to diversify further in tech agnostic/non-auto space.

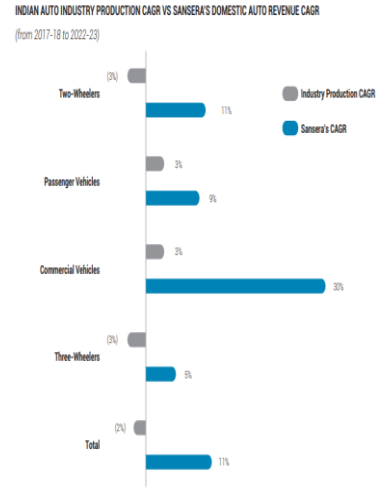
Investment Rationale

Healthy orderbook to ensure industry leading growth over FY23-25E

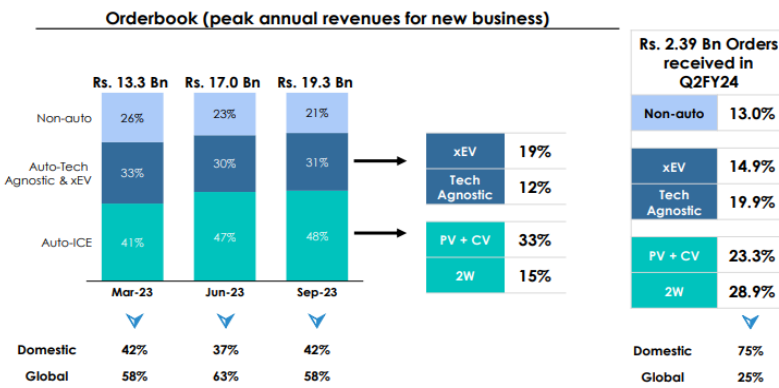
Sales at Sansera Engineering have grown at a CAGR of 17% over FY20-23. The company on a consistent basis has outperformed its underlying automotive segment through new product as well as client wins. With 2-W demand recovery underway as well as robust order book amounting to ₹ 1,930 crore as peak annual revenues, we expect the outperformance trend to continue with company well poised for healthy double digit topline growth going forward. Encouragingly, SEL has won ₹ 600 crore (peak revenue) as incremental orders in H1FY24 with bulk 58% directed towards global markets including exports and rest 42% as domestic. The company is a big beneficiary of China+1 as well as vehicle lightweighting themes.

Exhibit 3: Order book as of H1FY24

Rs. 6 Bn worth of incremental orders in H1FY24



Present orderbook as of H1FY24 is constituted 48% by the Auto ICE segment however is tilted more in the favor of PV, CV space vs. the traditional 2W segment at Sansera. Rest 31% of it is constituted by Auto Tech Agnostic & EV space and remaining 21% from non-auto space

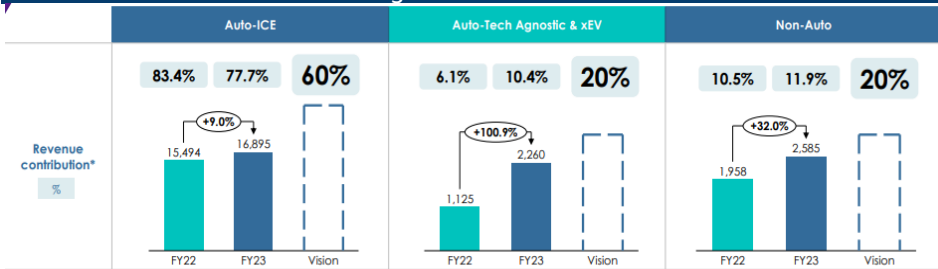


Source: Company, ICICI Direct Research

Focus on de-risking ICE portfolio; aimed at long term sustainable growth

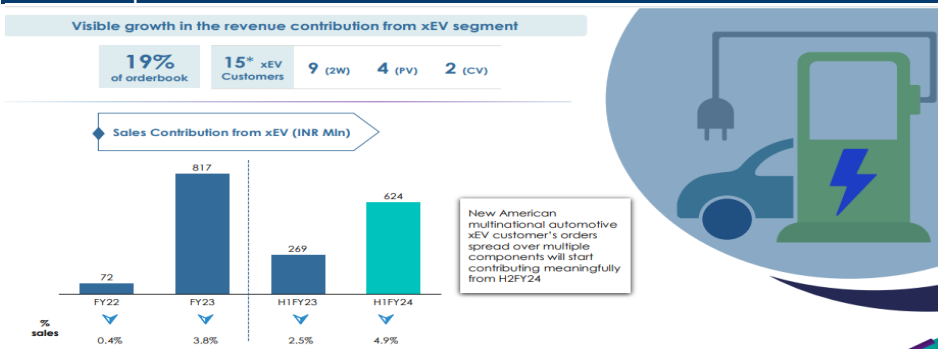
Present product portfolio at Sansera Engineering is Auto ICE heavy wherein the company manufacturers good amount of engine parts and hence is susceptible to EV risk with scooter exposure at ~8% the real EV risk in our opinion. From being a 100% ICE component player way back in FY13 the company has steadily diversified into other categories bringing ICE share of sales down to 78% as of FY23 and is further envisaging to reduce it to 60% in times to come. This is structurally positive and provides wings of tangible and sustainable diversified growth going forward. SEL aims to increase its Auto Tech Agnostic & EV as well as non-auto segment share of business to 20% each and is winning exciting orders in these new spaces.

Exhibit 4: Future diversification targets - vision



Source: Company, ICICI Direct Research

Exhibit 5: Update on electrification

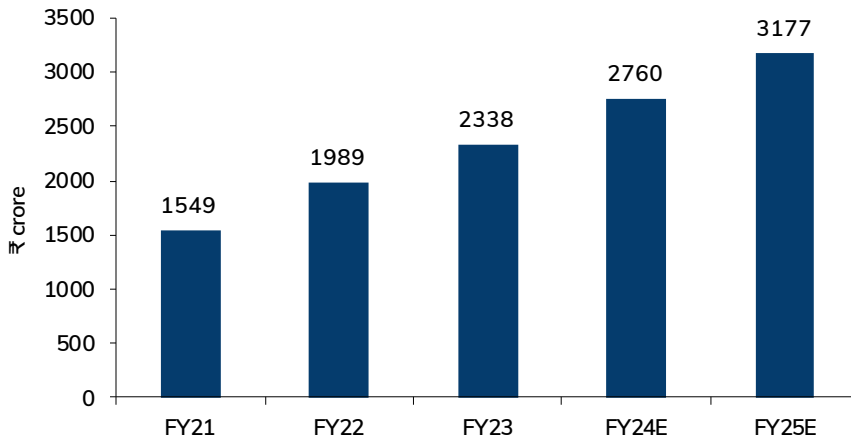


Source: Company, ICICI Direct Research

Sansera Engineering has made interesting inroads into the EV components space with EV specific components forming 19% of its current orderbook and company onboarding 15 EV clients (new and existing). EV components share of sales has improved from 3.8% of sales as of FY23 to 4.9% as of H1FY24

Key Financial charts

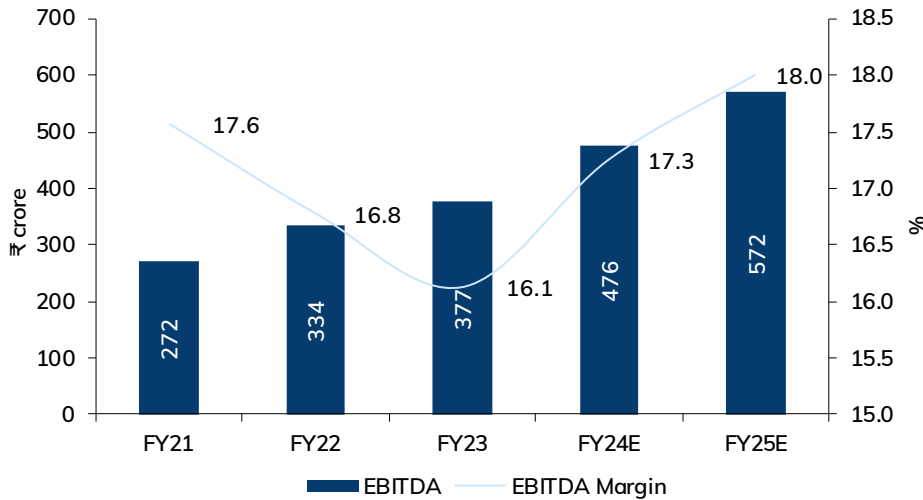
Exhibit 6: Trend in topline



Net sales are expected to grow at 16.6% CAGR at Sansera Engineering over FY23-25E to ₹ 3,177 crore as of FY25E

Source: Company, ICICI Direct Research

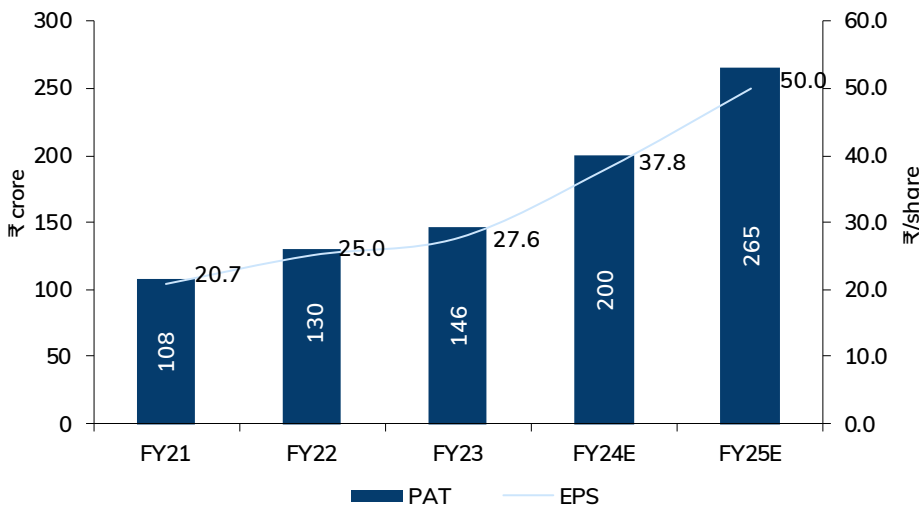
Exhibit 7: Trend in EBITDA & margins



EBITDA is expected to grow at 23.2% CAGR over FY23-25E to ₹ 572 crore in FY25E with margins reaching 18% as of FY25E. SEL is expected to realise healthy operating leverage gains going forward

Source: Company, ICICI Direct Research

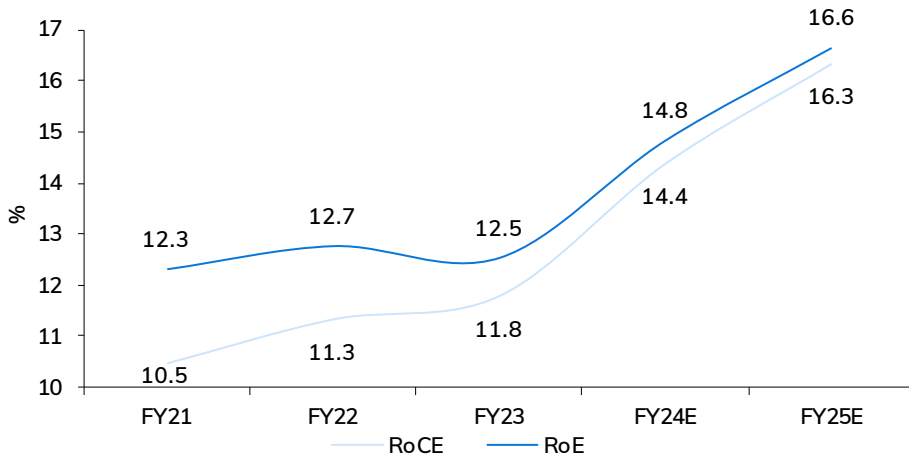
Exhibit 8: Trend in bottom-line & EPS



PAT is expected to grow at a CAGR of 34.6% over FY23-25E to ₹ 265 crore in FY25E with corresponding EPS seen at ₹50 in FY25E

Source: Company, ICICI Direct Research

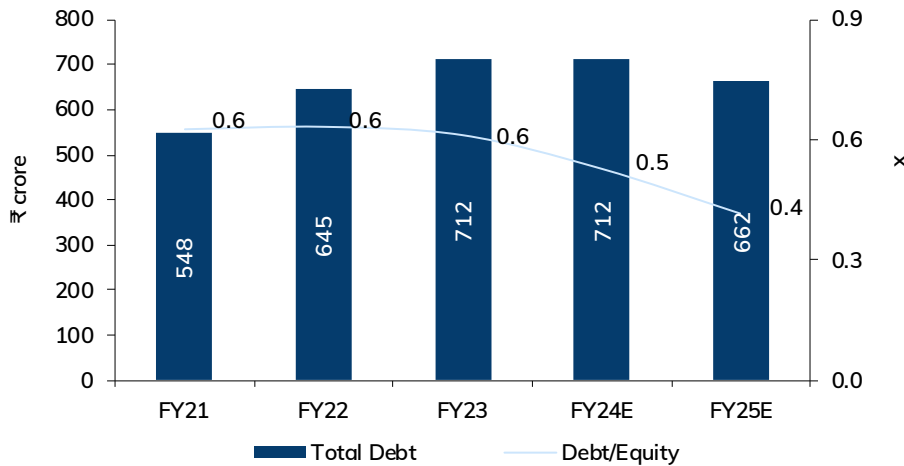
Exhibit 9: Trend in return ratio



The company has on a consistent basis realised double digit return ratios and is expected to report RoE/RoCE of ~16-17% by FY25E

Source: Company, ICICI Direct Research

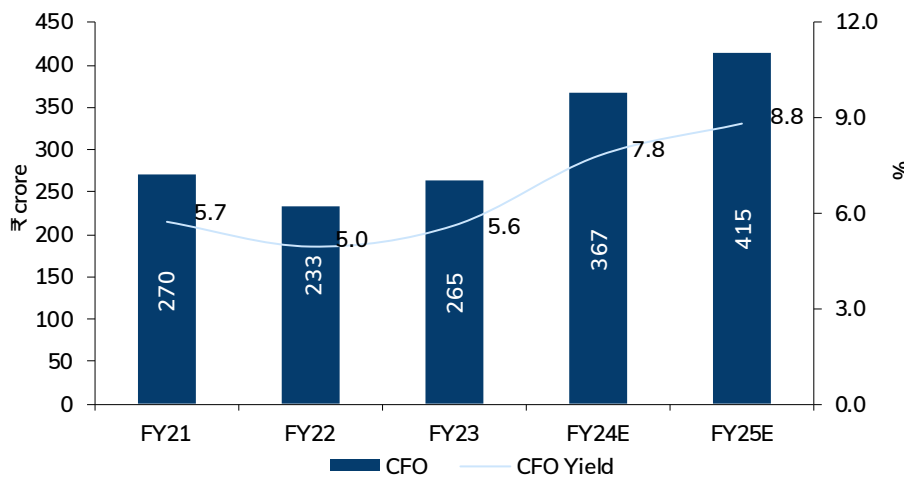
Exhibit 10: Debt trajectory and consequent debt: equity ratio



Sansera has controlled debt on its balance sheet with Debt/equity seen declining to 0.4x by FY25E with absolute debt peeking out at the present levels (~₹712 crore)

Source: Company, ICICI Direct Research

Exhibit 11: 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% (FY23-25E), acting as a good margin of safety to our investment thesis

Source: Company, ICICI Direct Research

Risk and Concerns

Client concentration risk

Top client at Sansera Engineering contributes ~14% of its sales as of FY23 while top 5 clients contributed ~51% of its total sales. Thus, there exists client concentration risk at the company wherein any adverse event of loss of any of its top 5 clients will meaningfully challenge its growth trajectory. Sansera however has worked to derisk itself from this phenomenon with its top client contribution to sales dropping from 21% in FY21 to 14% in FY23. Moreover, it has a successful history of long tenure client relationships which should help mitigate this risk for the company going forward.

Sharp rise in commodity prices putting pressure on margins

Aluminium is a key raw material for the company with price of metal being a pass through at most of its clients. However, any sharp move in metal prices and delay in transmission of the same could impact margins at the company in the interim period. This will meaningfully change our forward estimates at the company. SEL's endeavour however is to improve its margin profile going forward.

Global macroeconomic slowdown impacting its global exposure

Sansera realises healthy 28% of its sales from outside India which includes its entity in Sweden as well as direct exports from India. Global economic growth is at risk amidst high inflation as well as high interest rates scenario and hence any slowdown in global economic activity will affect prospects at Sansera going forward. As of FY23, the company realises 17% of sales from Europe, 7% from US and 4% from rest of world and hence is also susceptible to foreign exchange led currency risk.

Financial Summary

Exhibit 12: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Net Sales	1989.0	2338.3	2760.0	3177.2	
Other Operating Income	0.0	0.0	0.0	0.0	
Total Operating Income	1,989.0	2,338.3	2,760.0	3,177.2	
Growth (%)	28.4	17.6	18.0	15.1	
Raw Material Expenses	1,098.3	1,312.4	1,200.6	1,366.2	
Employee Expenses	277.4	318.0	372.6	421.0	
Other Operating Expense	279.8	331.0	710.7	818.1	
Total Operating Expenditure	1,655.4	1,961.3	2,283.9	2,605.3	
EBITDA	333.6	377.0	476.1	571.9	
Growth (%)	22.6	13.0	26.3	20.1	
Depreciation	119.7	130.1	148.1	167.6	
Interest	51.0	61.5	64.1	56.3	
Other Income	15.5	17.8	7.9	11.4	
PBT	178.4	203.2	271.8	359.4	
Exceptional Item & MI	1.4	2.2	3.0	4.0	
Total Tax	46.5	54.9	68.5	90.6	
PAT	130.4	146.2	200.3	264.9	
Growth (%)	20.8	12.1	37.0	32.2	
EPS (₹)	25.0	27.6	37.8	50.0	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Profit after Tax	130.4	146.2	200.3	264.9	
Add: Depreciation	119.7	130.1	148.1	167.6	
(Inc)/dec in Current Assets	-99.7	-107.9	-144.9	-144.5	
Inc/dec in CL and Provisions	32.0	34.8	99.8	70.9	
Others	51.0	61.5	64.1	56.3	
CF from operating activities	233.5	264.7	367.4	415.1	
(Inc)/dec in Investments	-7.3	-0.1	-2.5	-5.5	
(Inc)/dec in Fixed Assets	-294.3	-238.0	-280.0	-250.0	
Others	-7.2	-19.1	-2.0	-1.0	
CF from investing activities	-308.8	-257.2	-284.5	-256.5	
Issue/(Buy back) of Equity	-9.5	0.2	0.0	0.0	
Inc/dec in loan funds	96.9	67.0	0.0	-50.0	
Dividend & interest	-61.4	-74.8	-80.0	-80.1	
Inc/dec in Share Cap	0.0	0.0	0.0	0.0	
Others	34.6	11.4	0.0	0.0	
CF from financing activities	60.6	3.7	-80.0	-130.1	
Net Cash flow	-14.8	11.3	2.9	28.5	
Opening Cash	65.1	50.3	61.6	64.5	
Closing Cash	50.3	61.6	64.5	93.0	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23	FY24E	FY25E	
Liabilities					
Equity Capital	10.4	10.6	10.6	10.6	
Reserve and Surplus	1,013.0	1,157.3	1,341.7	1,582.8	
Total Shareholders funds	1,023.4	1,167.9	1,352.3	1,593.3	
Total Debt	645.1	712.1	712.1	662.1	
Deferred Tax Liability	64.2	68.9	68.9	68.9	
Minority Interest / Others	154.0	144.9	147.9	151.9	
Total Liabilities	1,886.7	2,093.8	2,281.2	2,476.2	
Assets					
Gross Block	1,678.3	1,963.0	2,268.7	2,518.7	
Less: Acc Depreciation	476.5	606.6	754.7	922.2	
Net Block	1,201.8	1,356.5	1,514.0	1,596.4	
Capital WIP	122.4	75.7	50.0	50.0	
Total Fixed Assets	1,324.2	1,432.1	1,564.0	1,646.4	
Investments	48.7	48.3	50.8	56.3	
Inventory	277.6	371.0	415.9	478.8	
Debtors	408.6	432.7	529.3	609.3	
Loans and Advances	4.1	4.1	4.9	5.6	
Other Current Assets	54.9	45.2	47.8	48.7	
Cash	50.3	61.6	64.5	93.0	
Total Current Assets	795.5	914.6	1,062.4	1,235.4	
Current Liabilities	265.3	292.7	378.1	435.2	
Provisions	19.3	5.5	7.1	8.1	
Current Liabilities & Prov	334.3	369.1	468.8	539.7	
Net Current Assets	461.2	545.5	593.6	695.7	
Others Assets	52.6	67.8	72.8	77.8	
Application of Funds	1,886.7	2,093.8	2,281.2	2,476.2	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	25.0	27.6	37.8	50.0
Cash EPS	48.0	52.2	65.8	81.7
BV	196.2	220.6	255.5	301.0
DPS	2.0	2.5	3.0	4.5
Cash Per Share	9.7	11.6	12.2	17.6
Operating Ratios (%)				
EBITDA Margin	16.8	16.1	17.3	18.0
PAT Margin	6.6	6.3	7.3	8.3
Inventory days	50.9	57.9	55.0	55.0
Debtor days	75.0	67.5	70.0	70.0
Creditor days	48.7	45.7	50.0	50.0
Return Ratios (%)				
RoE	12.7	12.5	14.8	16.6
RoCE	11.3	11.8	14.4	16.3
RoC	12.5	12.6	15.1	17.3
Valuation Ratios (x)				
P/E	35.6	32.2	23.5	17.8
EV / EBITDA	15.9	14.2	11.3	9.2
EV / Net Sales	2.7	2.3	1.9	1.7
Market Cap / Sales	2.4	2.0	1.7	1.5
Price to Book Value	4.5	4.0	3.5	3.0
Solvency Ratios				
Debt/EBITDA	1.9	1.9	1.5	1.2
Debt / Equity	0.6	0.6	0.5	0.4
Current Ratio	2.6	2.9	2.6	2.6
Quick Ratio	1.6	1.6	1.5	1.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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