SANSERA ENGINEERING LIMITED

Multiple growth levers in place...

Sansera Engineering Ltd (Sansera) is an integrated player engaged in the manufacturing of various critical components such as connecting rods, rocker arms, crankshafts etc and precision engine forged components for 4Ws, 2Ws, and CVs. It also manufactures components for the aerospace, defence, and EV industries. The company has a strong order book of ~₹20.4 bn as of 3QFY24. Of which 53% is from tech-agnostic, xEV & non-auto segments, which we believe should drive strong topline growth going ahead and outperform industry growth. Our positive stance on the company is underpinned by Its strong engineering capabilities enabling it to expand the addressable market both in terms of product offering and geographic presence. Cashing in on large non-auto opportunities such as Aerospace and Defense for which the company has invested recently should yield positive results for the company, thus reducing dependence on Autos, especially the 2W ICE business in India. We also believe that the company shall continue to post consistent organic growth outpacing peers through expanding their client base both in domestic and international markets. Structural changes occurring on the customer side wherein most of the OEMs are switching from in-house based model to outsourcing model for components in which Sansera in market leader shall augur well for Sansera. Improving product mix, operating leverage stemming from scope for further utilization of capacities (currently at 70%), higher exports contribution, premiumization and EV proliferation shall lead to profitability scale-up.

We thus build in revenue growth of 19% over FY23-26E led by the addition of component clients, recovery in the 2W segment, and rising vehicle content driven by premiumization. We are assuming a margin of 18% for FY 26, further driving PAT growth of 32% CAGR over FY23-26E. We also build in RoE/ RoCE of ~22%/ 20% in FY26 against 16.2%/ 15.1% in FY23. The stock is currently trading at a PE of 16x FY26E EPS assuming that the share of ICE engine-related components (76% in 9M FY24) is expected to decline to ~65% in FY26. We initiate coverage on Sansera with a BUY rating and a target price of ₹1,235 at PE of 19x FY26E EPS.

Clear revenue visibility on the back of robust order book

The company has won new orders worth ~₹20 bn (the highest ever), of which, a sizeable ₹1.1 bn in 3Q FY24. 59% of these new orders are from global clients and 41% from domestic ones. 53% of its order book is from the auto tech-agnostic and non-auto segments. Going ahead we believe revival in exports, ramp-up in execution and rising aerospace revenue should help Sansera outperform industry growth. We build in revenue growth of ~19% over FY23-26E.

Key Financials	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Total sales (₹ bn)	19.9	23.4	27.5	32.7	39.3
EBITDA margins (%)	16.9%	16.2%	16.8%	17.6%	18.0%
PAT margins (%)	6.6%	6.3%	7.2%	8.2%	8.9%
EPS (₹)	25.0	27.6	37.3	50.7	65.8
P/E (x)	41.3	37.4	27.7	20.4	15.7
P/BV (x)	5.3	4.7	4.0	3.4	2.8
EV/EBITDA (x)	16.8	14.9	12.3	9.9	8.0
ROE (%)	16.6%	16.2%	18.7%	21.8%	23.3%
ROCE (%)	14.6%	15.1%	16.4%	18.8%	20.2%
Net debt/equity (x)	0.47	0.45	0.41	0.33	0.24

Rating	BUY
Current Market Price (₹)	1,038
12M Price Target (₹)	1,251
Potential upside (%)	21

Stock Data	
Sector :	Automobile & Auto Components
FV (₹) :	2
Total Market Cap (₹ bn) :	55
Free Float Market Cap (₹ bn) :	29
52-Week High / Low (₹) :	1,090 / 712
BSE Code / NSE Symbol	543358 / SANSERA
Bloomberg :	SANSERA IN

Shareholding Pattern

(%)	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	35.05	35.23	35.23	35.49
FPI's & FI's	22.73	29.00	30.34	38.11
MFs	18.22	17.76	17.90	11.39
Insurance	8.61	6.01	6.17	5.45
Others	15.39	12.00	10.36	9.56

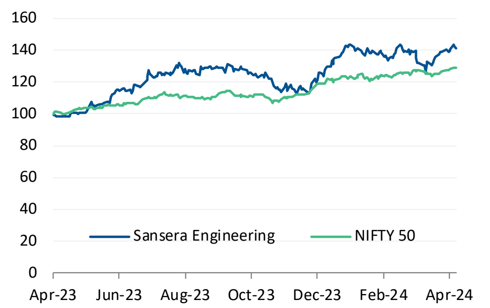
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Sansera	6.6%	0.7%	13.5%	41.0%
Nifty 50	1.2%	5.3%	15.6%	29.1%

** To date / current date : April 10, 2024*

Sansera vs Nifty 50



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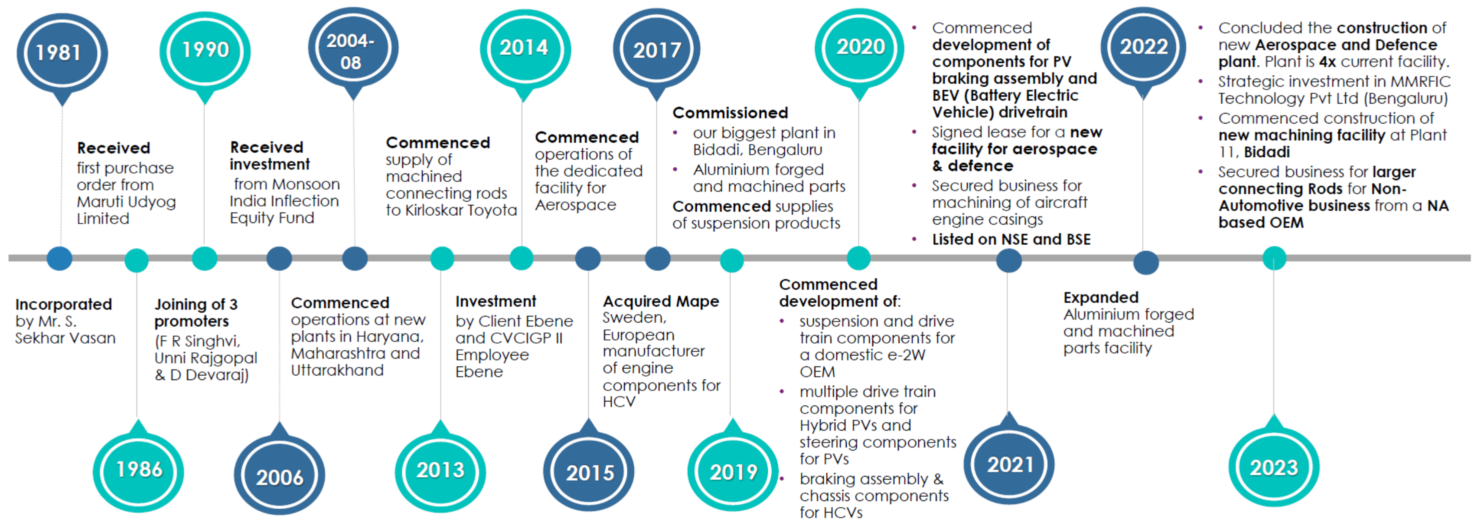
New components, new clients to boost the financials

Sansera is a niche manufacturer of high-precision machine components. It is a backward integrated player with in-house designing, forging, machining, and painting capabilities along with machine building capabilities. With expertise in these areas, Sansera is well placed to develop products in coordination with OEMs, excel at customization, deliver consistent product quality, and being cost competitive enables it to win new businesses. Even as it has added ~13 product families over FY23, it supplies products across 80 other product families. Moreover, leveraging its engineering capabilities, the company is successfully expanding into the tech-agnostic/ xEV & non-auto segments (largely aerospace and defence). Sansera's revenue contribution from the tech-agnostic/ xEV segment has risen from 6.1% in FY22 to 10.4% in FY23 and is expected to move up to 21% by FY26 driven by higher export content in this business, content per vehicle and profitability in EV components relative to ICE components. Similarly, the non-auto segment contribution has risen from 11.3% in FY22 to 12.5% in FY23 and is expected to move up to 14.3% in FY26 driven by robust growth in the aerospace segment.

Company background

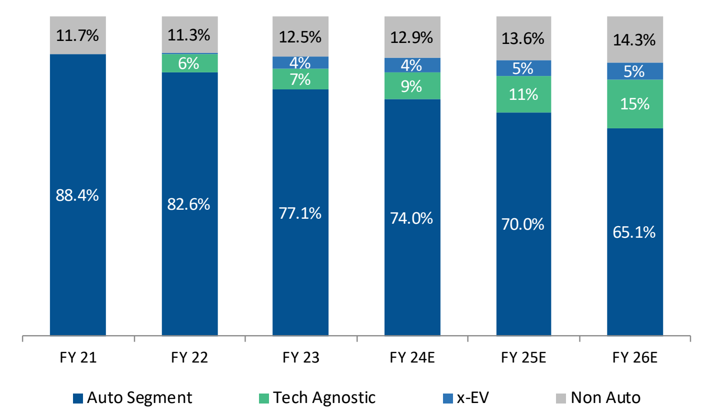
Sansera is an engineering-led manufacturer of complex and critical precision engineered components across automotive and non-automotive sectors. The company manufactures and supplies a wide range of precision forged and machined components for the automotive sector and non-automotive sectors. It manufactures and supplies a wide range of precision components for aerospace, off-road, agriculture, and other segments. The company was incorporated in 1981 in Bengaluru and commenced commercial production of components for the PV segment in 1986. Sansera's first client was Maruti Udyog and from there on the company has built its business organically by entering into precision components for 2Ws in 1996, off road vehicles in 2009, and LCVs in 2011. Later in 2013, it forayed into the aerospace segment, setting up a dedicated facility for high-precision aluminum and titanium components.

Sansera's journey since inception



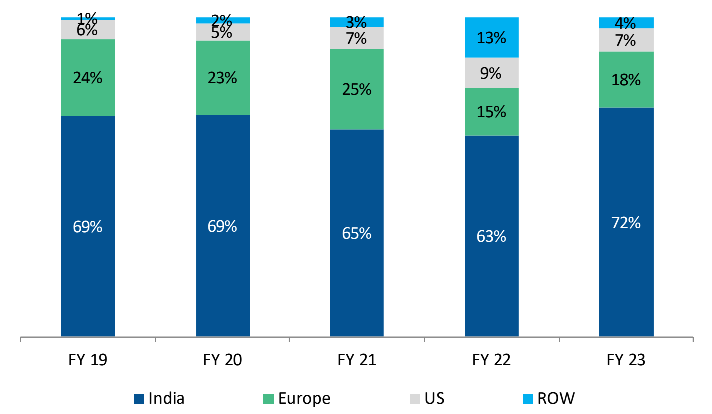
Source: Company, LKP Research

Revenue break-up - Segment wise



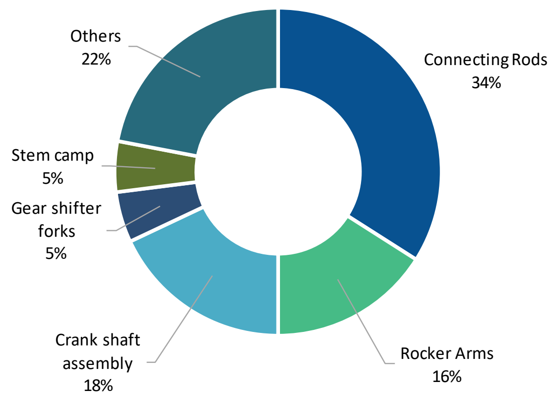
Source: Company, LKP Research

Revenue break-up - Geography wise



Source: Company, LKP Research

Revenue break-up - Product wise



Source: Company, LKP Research

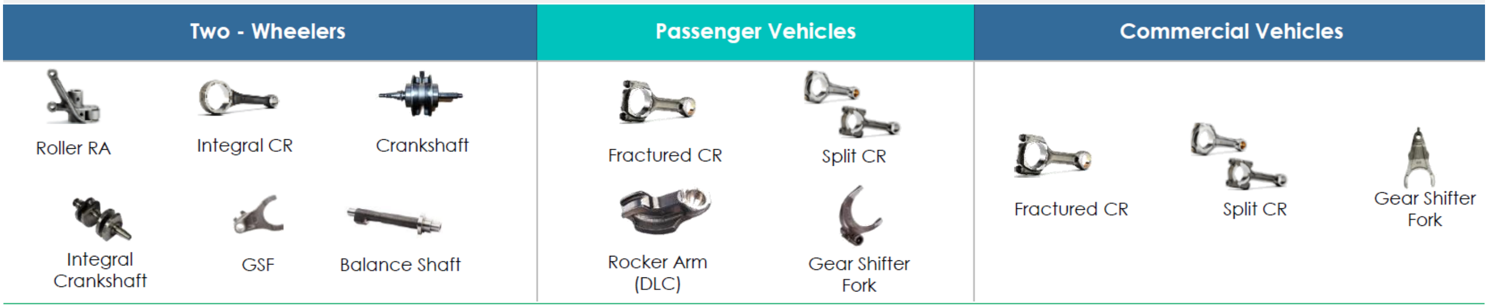
Product Portfolio

Sansera Engineering is into multiple products catering to multiple industries. As of 9M FY24, a sizeable portion of its revenue was derived from connecting rods, accounting for ~34% of its total revenue. Within India, the company is one of the leading manufacturers of (i) Connecting rods, crankshafts, rocker arms, and gear shifter forks for two-wheelers and (ii) Connecting rods and rocker arms for passenger vehicles.

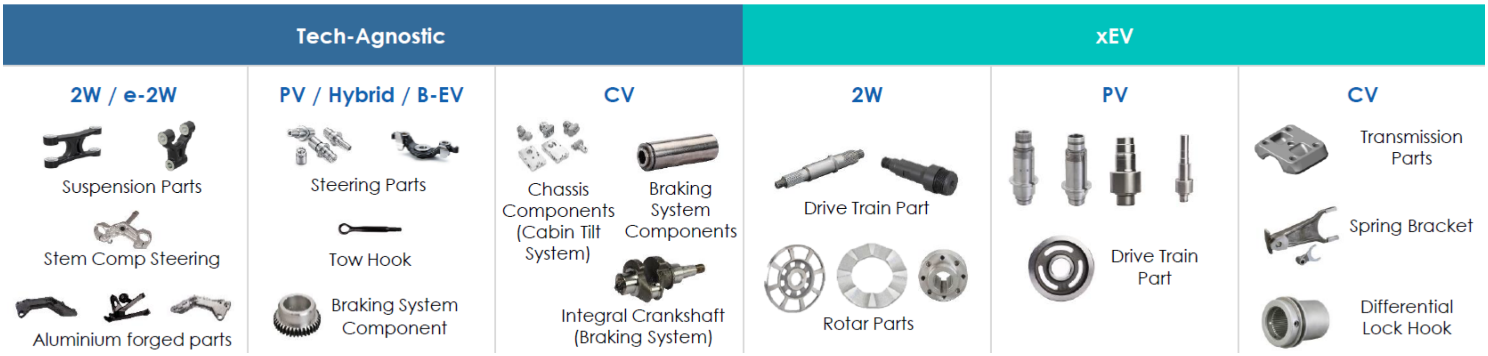
Product	Description	Rev. Contribution as of 9M FY24	Key Competitors
Connecting rods	A connecting rod is an important component of an ICE, used in converting the reciprocating motion of a piston into the rotary motion of a crankshaft, and vice versa. The rod connects the piston to a crank or crankshaft, with the smaller end connected to the piston and the bigger one to the crankshaft.	34%	MAHLE, American Linamar, ThysenKrupp, Bharat Forge
Rocker arms	The rocker arm is an important part of the valve train in the fuel injection system. It is a reciprocating lever, which converts the radial movement of the overhead camshaft into a linear movement that opens and closes the valves. For two-wheelers, the intensity of the rocker arm is two per vehicle for a single cylinder engine with one inlet and one outlet valve. A passenger vehicle with four-cylinder engines having two inlet and outlet valves each for one cylinder uses 16 rocker arms.	16%	Bajaj Motors, FIE group, Micro Turner, Schaeffler India
Crank shaft	The crankshaft is a critical part in engine assembly, which is connected to the pistons on one side and flywheel on the other. A crankshaft converts reciprocating motion of the pistons into rotational motion for the flywheel. The flywheel is, in turn, connected to the axles to put the vehicle in motion.	18%	Kay Jay Forge, Amtek Auto, Kalyani Forge, Modern Automotive
Gear shifter forks	A gear shifter fork is used to slide gears into or out of engagement with other gears to change from one gear ratio to another in a manual transmission. Only vehicles with manual transmission [including automated manual transmission (AMT)] have gear shifter forks.	9%	Bajaj Motors, FIE group, Micro Turner,Rico Auto, Kalyani Forge
Stem comp	A stem comp is an intermediate part of the front-fork assembly in a two wheeler. It connects with the handle bar at the top of the assembly and mates with suspension guides in the lower part of the assembly. It is usually made up of two parts, namely a bracket and a stem, which are welded together. Primarily, the role of the component is to withstand torsional stress and to ensure seamless maneuverability of the front wheel.	5%	Bajaj Motors, Endurance Technologies, Modern Automotives

Source: Company, LKP Research

Product : Auto (ICE)



Product : Auto (Tech-Agnostic and xEV)



Product : Non-Auto

Source: Company, LKP Research

Key Management Personnel

Name	Designation	Details
Mr. S Sekhar Vasan	Chairman & MD	Been a director with the company since incorporation. He holds a bachelor's degree in technology from the Indian Institute of Technology (IIT), Madras and a post graduate diploma in management from the Indian Institute of Management (IIM), Bangalore. He has over 39 years of professional experience.
Mr. F R Singhvi	Jt. MD	He is currently the chairman of Pillar 3 of ACMA overseeing the activities of ACT, ASDC, HR, YBLF. He has over 39 years of professional experience. He is a Chartered Accountant and is a member of the Institute of Chartered Accountants of India. He was a partner at M/s. Singhvi, Dev & Unni from 1981 to 2006.
Mr. B R Preetham	Group CEO	He has been associated with the company since September 28, 1992. He is responsible for supervising the affairs of the company and its subsidiaries. He holds a bachelor's degree in engineering from Bangalore University. He has over 28 years of experience and has oversight across all areas of the company's business, including developing and maintaining relationships with clients and suppliers.
Mr. Vikas Goel	CFO	He is a CA and a member of ICAI. He holds a bachelor's degree in commerce from the University of Delhi. He has over 19 years of professional experience with past associations with Ingersoll-Rand (India), Stanley Black & Decker, and Weir India.
Mr. Praveen Chauhan	COO	He has over 36 years of professional experience, approximately 18 years of which were dedicated to Sansera. He has a background that includes prior employment with Maruti Udyog Ltd. He holds a diploma in automobile engineering from the Board of Technical Education Delhi.

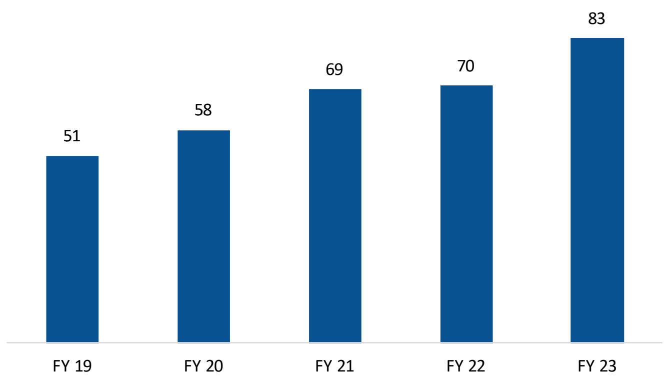
Source: Company, LKP Research

Investment Argument

Order book visibility remains strong

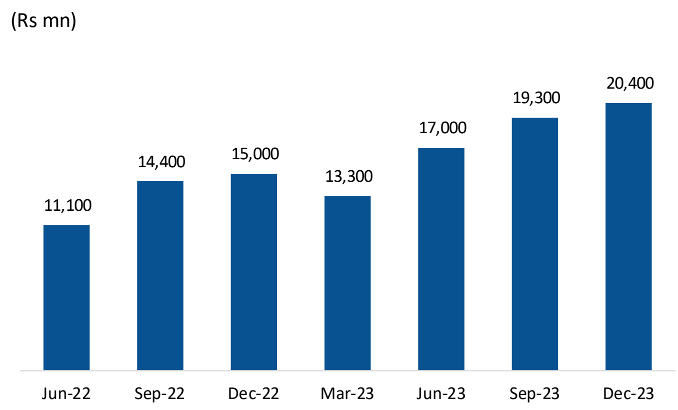
As of Q3 FY24, Sansera has been awarded 489 LOI/ purchase orders from 87 clients in the auto and 51 clients in the non-auto segments. These collectively amount to an order book of ₹20.4 bn which is ~87% of the FY23 revenue thus indicating the outperformance to the auto industry by wide margin. The company has been consistently winning new orders in the non-automotive and xEV (electric vehicle) segments, aligning with its goal to achieve 40% of its revenue from this segment in the coming years. Notably, 23% of the total order book consists of orders from the non-automotive segment, primarily driven by the aerospace and defence sectors. Additionally, the tech-agnostic and xEV segments account for 30% of the total order book. We also anticipate an increase in contribution from exports, as 59% of the current order book comprises the global business. In fiscal year 2023, Sansera's global revenue accounted for around 28% of its total revenue. Over the years, Sansera has expanded its client base in countries like the US, the UK, China, Brazil, Argentina, Indonesia, Italy, Sweden, and Thailand.

New component addition



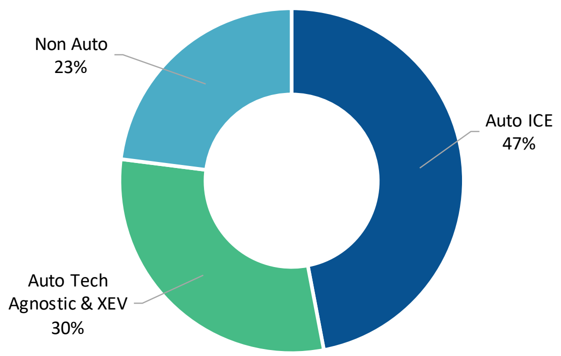
Source: Company, LKP Research

Order book



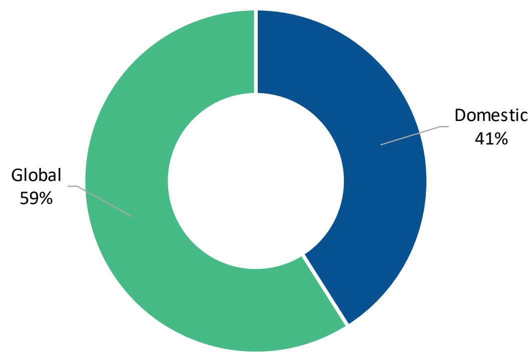
Source: Company, LKP Research

Segment wise orderbook



Source: Company, LKP Research

Geographical Order book split



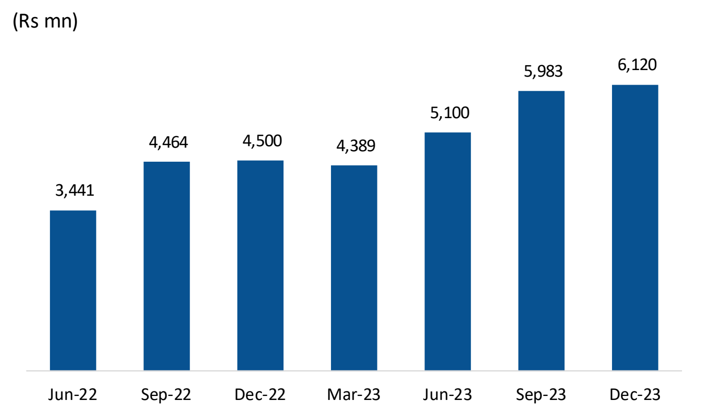
Source: Company, LKP Research

Tech agnostic business expansion offers best of both the worlds

After entering into the EV and tech-agnostic products space in FY22 to cater to the growing demand from EVs and to safeguard its product portfolio, which was largely skewed towards engine-related components, from the risk of electrification, Sansera has quickly moved ahead in it. The company has developed a slew of EV-related components, mainly related to drive train, rotors, and transmission. In the tech-agnostic segment, the company has developed components used in suspension, steering, braking, etc. In FY23, the share of xEV and tech-agnostic stood at ~10% of total revenue from 6% in FY22 and was at 11.8% in 9M FY24, which the company targets to raise to 20% over the next 3-4 years backed by a robust order book.

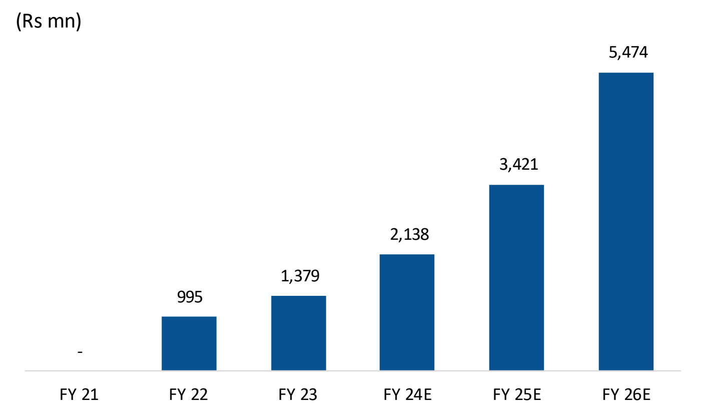
Components in the EV segment require a higher level of precision and are largely aluminum based due to the need for them being light weight. Thus, the kit value or the content value/vehicle for EVs is higher by about 10% as compared to traditional ICE components, which further drives revenue and leads to better margins. In addition to it, Sansera has started supplying to the global and domestic platforms of Toyota for their hybrid vehicles, which have content per vehicle in the range of ₹8k-10k. Sansera intends to develop multiple new technology-driven systems and components to cater to growing opportunities in vehicle electrification. We expect the xEV and tech-agnostic segments to grow by ~36% and ~56% CAGR FY23 - 26E respectively driven by a robust order book of ₹6.12 bn as of Dec-23 (30% of total orderbook), which is only expected to increase at an accelerated pace going ahead. The company is continuously adding new products to its portfolio which will drive the increase in content value as well. We expect margins to be better in this segment compared to the ICE segment given the higher use of aluminum, which also require a greater level of precision and specialization.

Tech Agnostic and EV orderbook



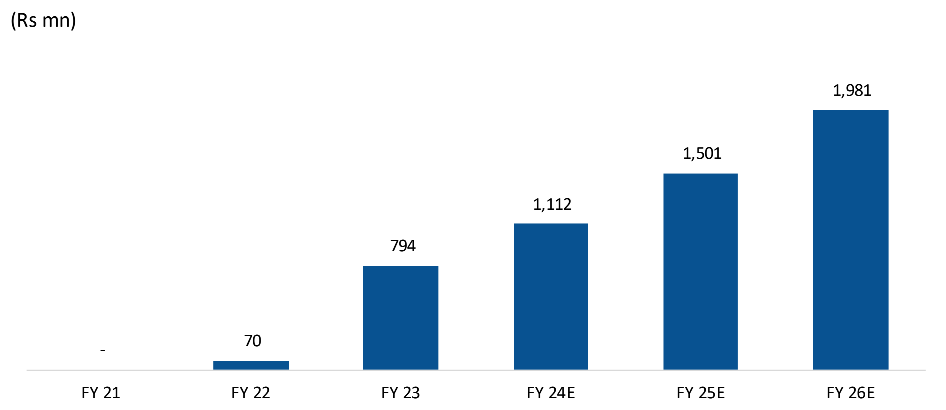
Source: Company, LKP Research

Tech Agnostic revenue trend



Source: Company, LKP Research

xEV Revenue Trend (₹ mn)

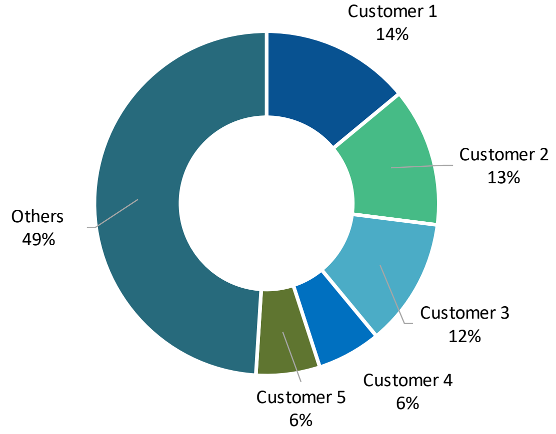


Source: Company, LKP Research

Strong client relations

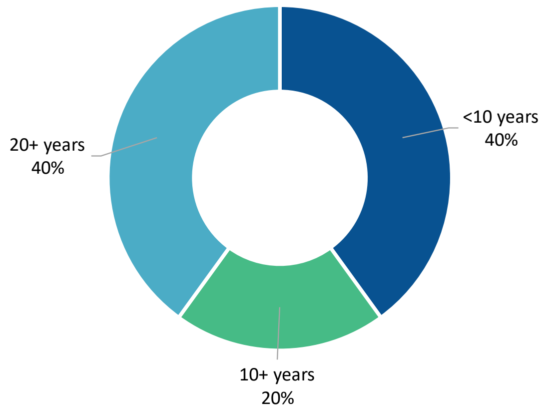
Given Sansera's strong engineering, designing, and end-to-end production capabilities, clients prefer Sansera as a one-stop-shop for their precision component needs. It has long standing relations with major 2W players like Bajaj, HMSI, and Yamaha (SOB of 70%-80% each) while it has recently started getting business from Hero MotoCorp (30% SOB) and TVS. In PVs, Sansera has had strong relations with Maruti, spanning over 35 years and also with Honda Cars, Daimler, and Toyota. Recently it has also started supplying connecting rods to Tata Motors. In exports, the company mainly supplies to FCA, Stellantis, CNH, General Motors, Toyota, etc. It will also start supplying to Tesla in FY24 and is optimistic about winning over additional business as well over the next few years. Tesla's aggressive and ambitious plans to enter India soon should provide Sansera solid opportunity. Sansera has had a long-standing relations with OEMs, with more than 60% of its top 20 clients having done business with the company for more than 10 years. Similarly, it caters to ~96 auto and non-auto clients across 27 countries. Historically, the company has been successfully expanding its product offering by adding new components and cross-selling them to existing clients. For instance, with Maruti, the relation started off with the Rocker Arm business, eventually expanding it to several other components, making MSIL its largest client in PVs. From another perspective, Bajaj Auto, a top client contributing ~23% of its revenue in FY19 has now reduced to ~14%. The fall is mainly due to the addition of new clients leading to a diversified client base. Sansera's top-5 client revenue contribution in FY19 stood at 60%, which has come down to 51% in FY23. Sansera is a market leader in the Rocker arms and Connecting rods products with share close to 80-85%. In the Aerospace business, the company has strong relationships with clients such as Boeing (Tier I supplier) and Air Bus (Tier 2 supplier).

Customer split



Source: Company, LKP Research

Long standing client relations



Source: Company, LKP Research

Sansera operates a network of 16 manufacturing facilities strategically located across India and situated in key automotive hubs near its domestic clients. This proximity to clients makes Sansera the preferred choice for multiple domestic OEMs. Furthermore, Sansera efficiently caters to the demands of its export clients from these Indian plants, enhancing cost-effectiveness for the company. In addition to its Indian facilities, Sansera operates a plant in Sweden, primarily focused on catering to the HCV segment.

Manufacturing Facilities

Location	State	Country	Plants
Bidadi	Karnataka	India	9
Tumakuru	Karnataka	India	3
Pantnagar	Uttarakhand	India	1
Manesar	Haryana	India	1
Mehsana	Gujarat	India	1
Chakan	Maharashtra	India	1
Trollhatan	Vastra Gotaland	Sweden	1

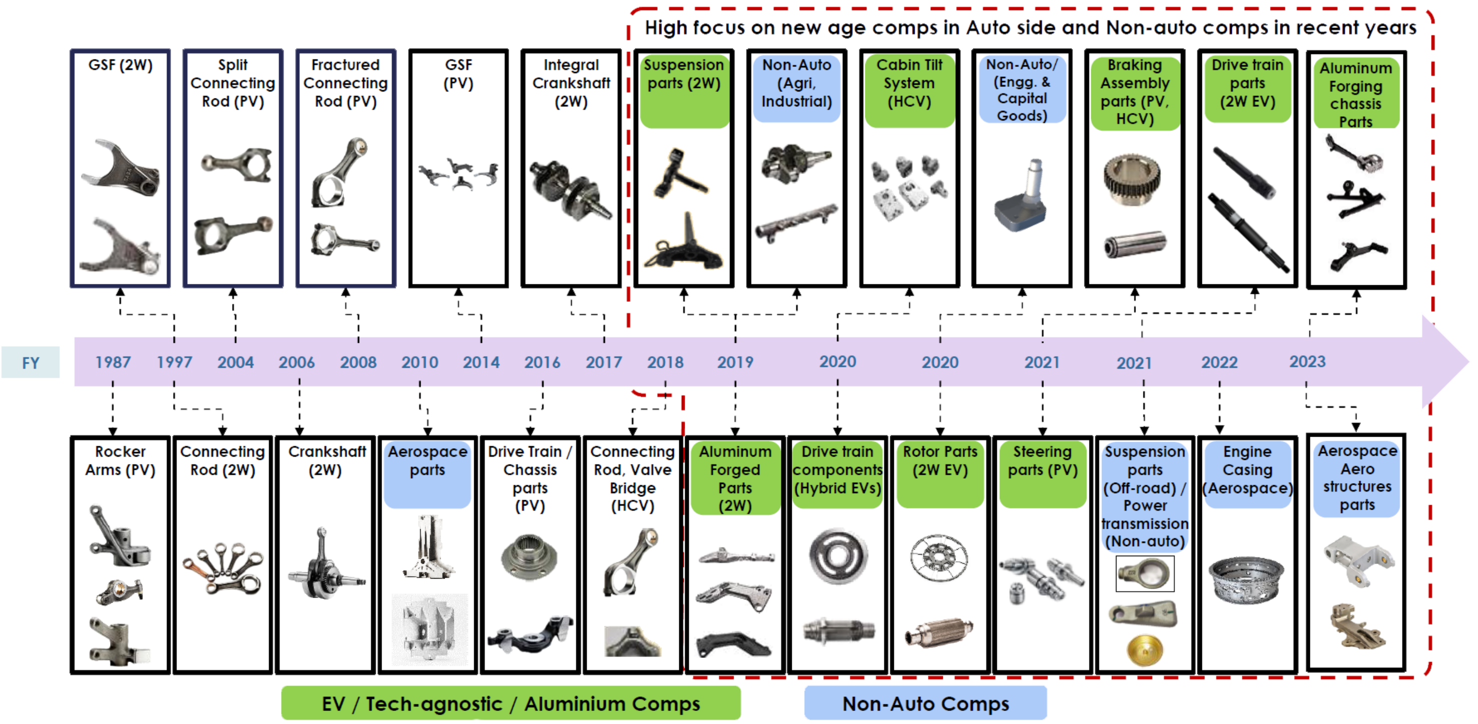
Source: Company, LKP Research

Backward Integration with robust engineering capabilities gives an edge

Sansera possesses advanced engineering capabilities across the product development cycle, including design and engineering, forging, machining, CD, testing, and validation. All of these critical capabilities are essential in the manufacture of quality-assured precision engineering components. These capabilities have provided Sansera the ability to expedite and improvise the product development cycle and also help it in engaging with clients from the product conceptualization stage onwards. It has played a pivotal role in nurturing Sansera's long-term relations with OEMs. Additionally, the company has integrated machine-building capabilities, including the in house manufacturing of special-purpose machines and CNCs required for its own operations. To date, the company has successfully manufactured over 1,050+ CNC machines in-house, including 75 machines manufactured during FY23. These machines are custom-tailored to precisely match the company's product needs, resulting in improved capital and operational efficiency, greater flexibility, and reduced reliance on external suppliers.

The in-house machine construction approach allows the company to achieve cost savings of approximately 15% and enhances operational efficiency when compared to purchasing machines from Japanese and German manufacturers. This also renders a high degree of flexibility, enabling the seamless interchange of capacity and product mix between all its product categories, which leads to high machine productivity and operational efficiencies. As an illustration, in FY21, the company shifted production lines from its aerospace division to its automotive division in response to lower demand in the aerospace sector. This strategic move improved capacity utilization and overall operational efficiency. Furthermore, the company has been aggressively investing in R&D and product development and has a team of 506 dedicated engineers supporting research in automotive, aerospace, machine building, automation & technical functions. The company has more than doubled its research staff from 201 in FY21 to 506 in FY23, as it has shifted its focus to the non-automotive and tech-agnostic & xEV segments along with product development in the auto space.

Product portfolio transformation



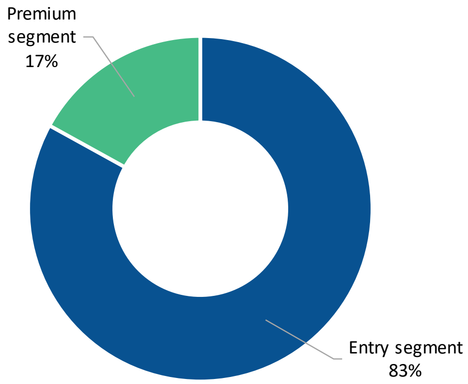
Source: Company, LKP Research

Premiumization theme in 2Ws shall augur well for Sansera

The proportion of entry-level motorcycles in the overall motorcycle market has decreased from 83% in FY14 to 72% in FY24, while the premium segment has seen its share rise from 17% in FY14 to 28% in FY24. Going ahead, the premiumization trend is set to further pick-up which is evident from the fact that OEMs are focusing on premium products and have lined up several new model launches in the segment. Further, product lifecycles have reduced considerably as compared to 10 years back, thus increasing the frequency of new model launches. In light of the above circumstances, OEMs are increasingly exploring the option of outsourcing precision components as part of their efforts to streamline operations and concentrate on product development. We believe that Sansera stands to gain significantly from this trend and can emerge as a key beneficiary.

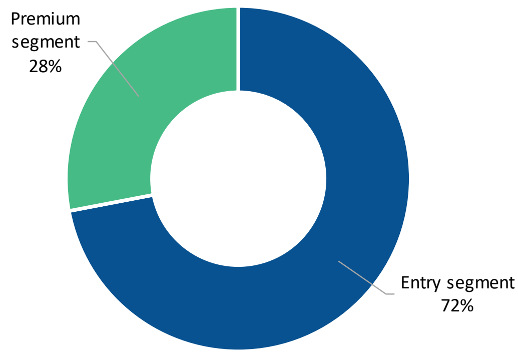
Furthermore, the increasing trend of light weighting in premium motorcycles, has led to a greater utilization of aluminum components compared to traditional steel ones. This shift is driven in pursuit of enhanced performance and efficiency, coupled with the inherent strength of aluminum. Additionally, aluminum parts contribute to the aesthetic appeal of premium bikes, resulting in a more attractive overall appearance. This increased usage of aluminum components also benefits ancillary companies by elevating the value of their content per vehicle, nearly doubling from ~₹3k/vehicle to ₹5.5-6k/vehicle. Sansera, in particular, is well-positioned in this regard due to its expertise in supplying high-precision forged products and its strong relationships with various two-wheeler OEMs. The company has presence across all major two-wheeler OEMs and their product lines. Sansera is the largest supplier of connecting rods, Rocker Arms and gear shifter forks to 2W OEMS in India. It expects decent growth in the 2W segment in FY25 post a strong recovery observed in FY 24. The company is able to grow ahead of industry mainly driven by a significant increase in content/vehicle resulting from light weighting application and premiumization, and expects the same to contribute to improvement in revenue and margins. We expect Sansera's 2W (ex. EV and tech) revenue to grow at ~16% CAGR FY23-26E driven by improving the content value/vehicle in its existing business and acquiring new additional business from new clients.

Share within motorcycles - FY 14



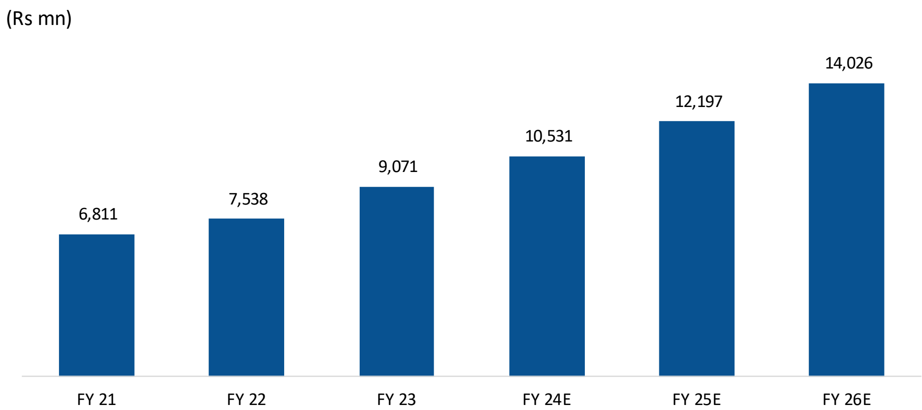
Source: Company, LKP Research

Share within motorcycles - FY 23



Source: Company, LKP Research

2W segment revenues

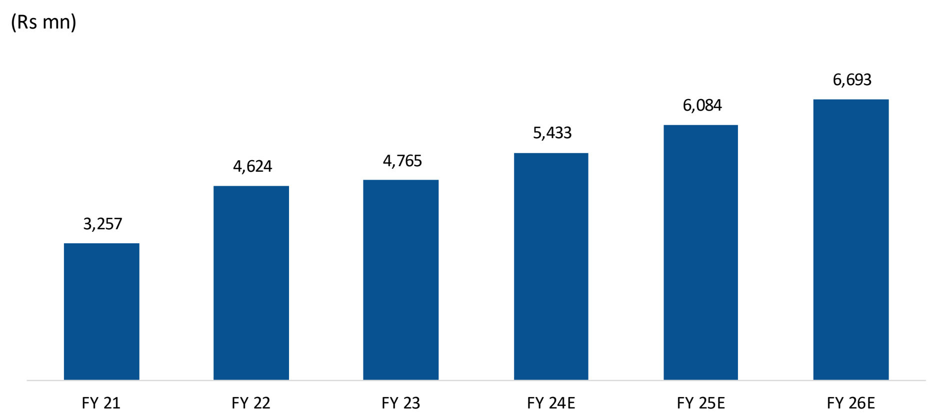


Source: Company, LKP Research

Momentum continues in PVs, driven by new orders and premiumization

Sansera is a dominant player and the largest supplier of connecting rods and Rocker Arms, which is supplied to key PV OEMs. The company has been able to grow its revenue at ~8% CAGR FY19-23, ahead of the PV industry growth of 5% during the same period. Growth in the PV segment is largely led by the addition of new clients and incremental business from its wide client base. Recently, the company secured significant orders from renowned international OEMs such as General Motors and Tesla, which provides the much-needed start for expanding into the international markets. We anticipate a steady increase in orders from these international clients going ahead. In the domestic market, the company won its first order from Tata Motors for the supply of connecting rods. Going ahead, we expect this share of the business to further increase with Tata Motors. Furthermore, we foresee an uptick in the value of content per vehicle, driven by the increasing premiumization trend.

PV segment revenue



Source: Company, LKP Research

EV proliferation in EU shall augur well for Sansera's ICE business!

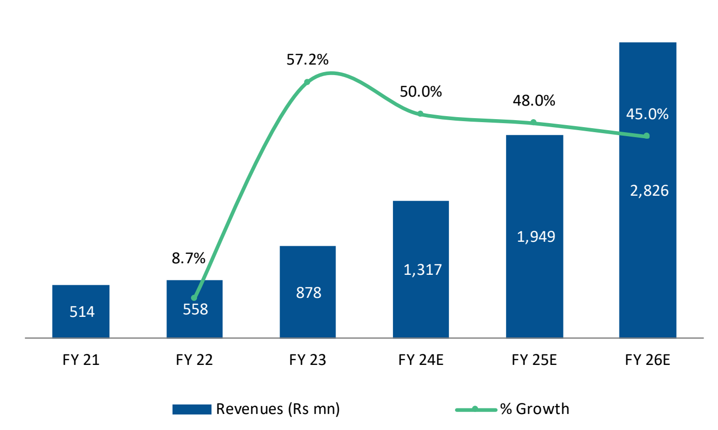
Due to a proliferation of EVs and hybrids, forging players in the EU have halted the capacity expansion of ICE-specific components like connecting rods, Rocker Arms, crankshafts, etc. We believe this will benefit Sansera as it has a significant capacity to cater to the growing needs of its clients and is open to capacity enhancements. Furthermore, Sansera maintains a lean cost structure, benefitting it by way of a distinct cost advantage over its global competition. Additionally, despite the popularity of EVs and hybrids, we anticipate ICE-powered PVs to have a dominant share over a considerable length of time.

Non-auto segment – The segment with huge potential to grow

Sansera over the year has added to its product offering in precision components for several non-automotive sectors like aerospace, agriculture, defence, and off-road. Within the non-auto space, aerospace is its largest segment (4.5% of topline in Q3 FY24). The company has long standing relations with players like Boeing, Airbus, and other tier 1 suppliers in aerospace. It is a tier 1 supplier to Boeing for certain components. Additionally, it serves as a component supplier to Collins and Raytheon, which supports Airbus as well as Boeing. For Aerospace, the company supplies in packages which include numerous components which are accurately manufactured in line with the client specifications. Sansera supplies variety of applications, starting from seating, lighting, cargo handling, actuation, landing gear and structural parts engine. We believe Sansera stands to hugely benefit from the specialization and efficiency that it brings to the table combined with good client relations as airplane OEMs are now looking to consolidate their supplier base in order to improve operations and cut costs.

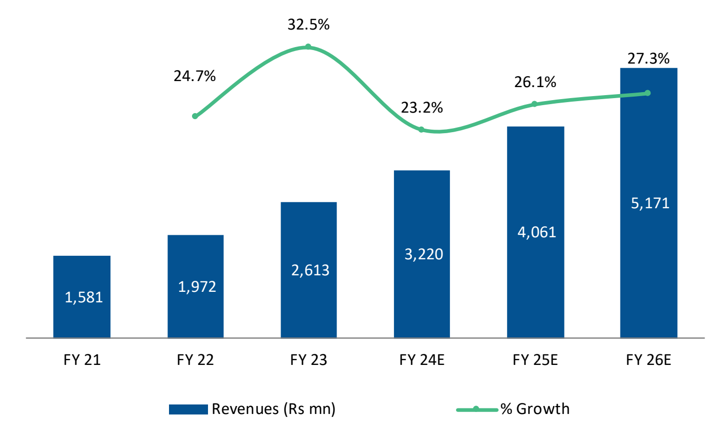
We believe the non-auto segment is poised for significant growth starting from FY24, led by the promising outlook for the aerospace and defence segments. We model in ~47% growth for both these segments in FY25 and FY26. Between FY19 and FY23, the non-auto segment registered 10% CAGR. However, we anticipate a much higher CAGR of approximately 26% from FY23 to FY26, driven by strong order wins of approximately ₹4 bn and the continuous inflow of new business in this sector. The non-auto business also has better EBITDA margin as compared to the auto segment, thereby improving the margin profile of the company. The company recently initiated operations at its new aerospace facility in Bengaluru, which is spread over a 10-acre area out of which currently 4-acre is utilized. Within this facility, two thirds of the space is allocated for aerospace activities, while the remaining one-third is dedicated to defence operations. This plant has potential to clock in revenues of ₹3.5 bn at full capacity utilization, while this plant has delivered revenues of ₹915 mn in FY23.

Aerospace



Source: Company, LKP Research

Non Auto



Source: Company, LKP Research

Structural move by OEMs to shift towards outsourcing – A big opportunity for Sansera

Management mentioned that it has been observed in the past that there has been a trend wherein, OEMs have been shifting gradually from manufacturing products like connecting rods and crankshafts inhouse to outsourcing these products to the component manufacturers like Sansera. Hero, HMSI, Bajaj Auto, Yamaha and off late Suzuki are some of the examples of this trend. The reasons for this shift in trend can be sited as – 1).Issue related with maintenance of quality amidst increasing focus on newer model launches and associated technologies 2). Flexibility related with adaptation to change, as most of the OEMs are reluctant to invest additionally into production of such critical products. 3). In-house OEM costs continue to grow at a much higher pace as compared to a much more competitive pricing for the suppliers.

Aggressive Aluminium forging business plans

The management highlighted that revenue from pure aluminium components amounted to approximately ₹260 mn for 9MFY24 with an estimated output of close to 1 mn components for the year. Production capacity has expanded from 2.5 to 4 presses, with plans to add two more presses (1,600 and 1,350 tons) by year-end. Sansera expects three more presses to be deemed necessary based on confirmed orders. The company's focus is primarily on the premium two-wheeler and xEV segments, with limited involvement in the passenger vehicle industry.

The company has completed the construction of a new machining facility at Sansera Plant 11, Bidadi, which will primarily cater to the machining of aluminium-forged components as well as bigger connecting rods for agriculture/construction equipment and heavier engines. Further, the management informed that the construction of the new forging plant has commenced and commissioning of a 4,000-ton press is expected to start in Q2 FY25. This will aid Sansera in moving to the higher engine non-automotive category (18 to 20-litre engines), with components that will cater to customers like Cummins, JTV, Kohler, Lieber, and CNH.

Capex to be maintained

Sansera is targeting to maintain capex levels of ₹2.8-3bn in FY24, with deployment going towards adding to aluminium forging capacity, adding 4,000T press, investing in US warehouse, new project-related capex and maintenance capex. This level of capex is expected to be maintained in FY25 as well with continuation of the aforementioned plans.

Stake purchase in MMRFIC is a masterstroke on the lines of product diversification

In FY23, Sansera made a strategic investment of ₹200 mn to acquire a 21% stake in MMRFIC. The latter specializes in millimeter-wave radar technology (30-110 GHz), which is not fully available in India and is imported from countries like Russia, Israel, or the US. MMRFIC's radar technology finds applications in both defence and non-defence sectors, including target seeking, system guidance, electronic warfare, surveillance (for securing critical installations' perimeters), and drone detection. Additionally, MMRFIC is exploring the production of smaller automotive radars for Advanced Driver Assistance Systems (ADAS), with potential entry into Auto OEMs facilitated by Sansera.

Following 4-5 years of development, most radar components have undergone mill testing, and field testing is set to conclude shortly. MMRFIC expects good inflows of orders once the final field testing is concluded and certifications are received. Sansera holds an optimistic outlook regarding the future potential unlocked by MMRFIC's technology, which will be complemented by Sansera's engineering expertise and existing OEM relations. The company foresees the realization of MMRFIC's full potential within 18-24 months, driven by strong demand in both the defence and automotive segments. We anticipate strong margins in the MMRFIC business as the company positions itself as a frontrunner in millimeter-wave radar technology in India and it is strategically poised to capitalize on the golden opportunity to make a mark in the defence sector amid the growing emphasis on localizing defence component production. We maintain a positive outlook on the application of this technology in the automotive sector, particularly for ADAS. The company has already received a favorable response from a European OEM for this technology, and a dedicated product is in the development pipeline. We anticipate a surge in orders from the automotive sector in the coming years, fueled by the rising demand for vehicle automation. Sansera's potential to raise its stake from around 21% to approximately 51% at a predetermined valuation adds to the favorable outlook going ahead. The significant returns from this investment are projected to take off from FY26 once multiple products enter into production phase.

Revival in Sweden is expected by FY26

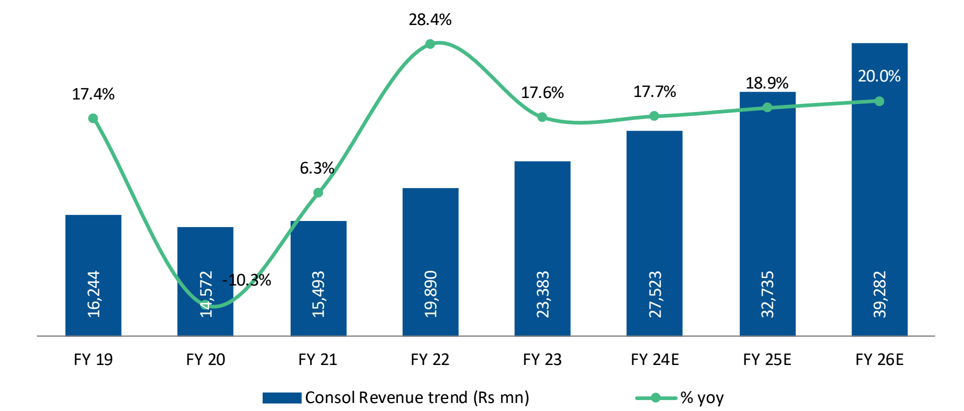
In order to have a position in the bigger engine segment (connecting rods for Heavy Commercial Vehicles), Sansera acquired the Swedish business (Mape Sweden AB) in 2017 which was sold by Volvo to Trolhattan Sweden at a very low cost. With revival as the aim of this loss making business, Sansera initially invested a sizeable amount to shift the facility to new premises which consumed initial two years. Post which, due to COVID, this business slumped mainly due to reduction in business from their key customer who reduced business gradually from 100% SOB to 33% SOB. Therefore, despite subsidies doled out by Swedish government, high fixed costs, manpower costs, other expenses and low operating leverage weighed on the profitability.

As a revival strategy, Sansera Sweden is eyeing come back of the businesses which they had lost earlier from their customers along with automation of their manufacturing capacities. They have recently won big orders from Cummins and Lieber which would commence from FY25 and reach peak in FY26. Discussions with other customers are also on the way and orders are expected by FY26. Therefore, we expect this business to breakeven at bottomline by FY26 and add to consolidated business. This business has posted derived revenues of ₹2.48 bn in FY23, which was a growth of 2%, while EBITDA margins were at 11.5% while at bottomline the business unit posted small losses of ₹19 mn. We expect small profits of ₹19 mn in FY 24 while expect good improvement in profits at ₹73 mn and ₹127 mn in FY25E and FY26E respectively.

Financial overview

Sansera has posted revenues/EBITDA/net profits CAGR of 17%/19%/32% in the period between FY 20-23. Going forward, we expect 19% revenue CAGR for Sansera over FY23-26E, driven by an increasing share of non-auto, tech-agnostic & xEV segments. The non-auto segment revenue contribution stood in the range of 10%-11% from FY19-22 due to de-growth in the aerospace segment. But beginning FY23, the company is back on the growth track and is expecting substantial growth from this segment going ahead. The company has forayed into EV components in FY22, and given the increasing trend of electrification, we expect tech-agnostic & xEV segments to drive the next leg of topline growth. Sansera's management has set itself a combined target of achieving a revenue contribution of ~40% from the non-auto and tech-agnostic & xEV segments within a few year and we believe it is well on track to do so with winning new customers and additional business from the existing ones. Structural opportunities in the domestic as well as exports markets should augur well.

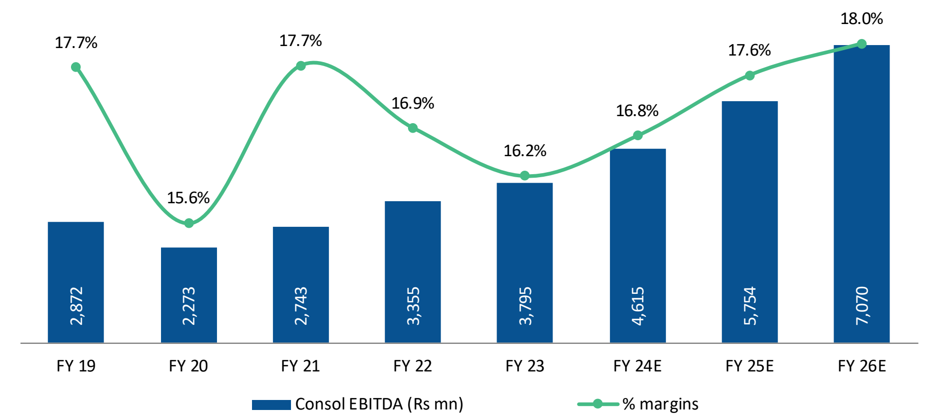
Consol Revenue trend (₹ mn)



Source: Company, LKP Research

We expect margins to improve by 180 bps in FY26E from the current 16.2% in FY23. Margin expansion will mainly be driven by the improving share of non-auto and xEV businesses, which requires high-precision aluminum components. An area the company may hugely benefit from due to its expertise in precision components and its competence of being a one stop-shop for all procedures. 59% of Sansera's total order book as of 3QFY24 was from global clients, which gives us the confidence of margin improvement going ahead as export margins are better compared to the domestic business. Additionally, premiumization in the form of new business wins for the likes of KTM, Harley Davidsson, Triumph and TVS are expected to scale up margins as well. Hybridisation would further increase the content per vehicle by 3x-4x of ICE vehicles, thus positively impacting the margins.

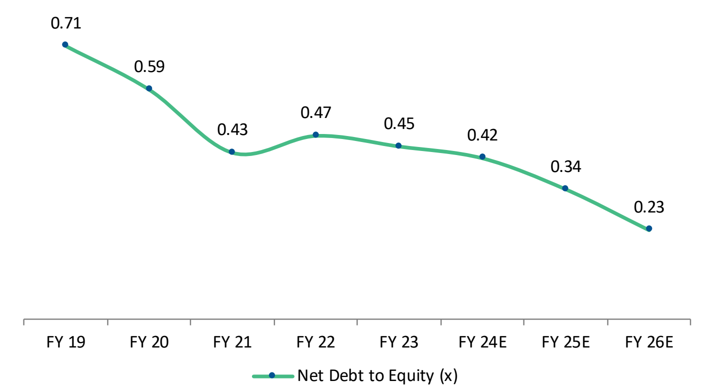
Consol EBITDA (₹ mn) & EBITDA margin (%)



Source: Company, LKP Research

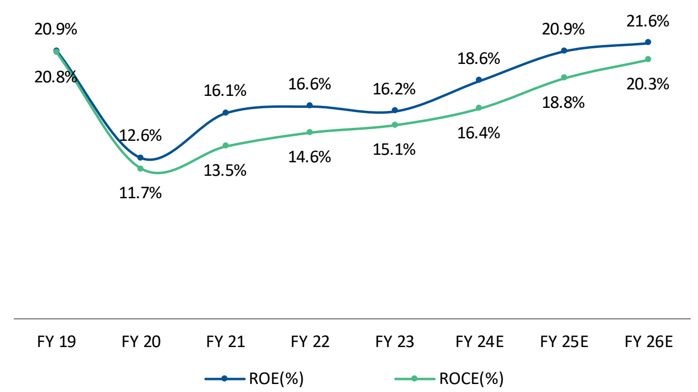
Sansera's debt as of FY23 stood at ~₹7 bn against ₹5.1 bn in FY19. The increase in debt is mainly due to higher capex spends and working capital needs. Going ahead, we expect debt to be at ~₹6 bn in FY26, as we expect stable capex spending to continue to support earnings growth which will also lead to a reduction in the debt to equity ratio and improving the RoCE from ~15% currently to ~20% in FY26.

Net Debt to Equity (x)



Source: Company, LKP Research

ROE Versus ROCE



Source: Company, LKP Research

Risks

Slower-than-expected growth of domestic 2W market in FY24-FY25

Post a double digit growth recorded by most of the 2W players in FY24, we expect this growth to continue in FY25 as well, but in case the monsoons are weaker than expected or there are other inhibitors for growth like any regulatory obstacles may hamper the growth of the domestic 2W segment.

Currency risk

About 30% of SANSERA's revenue comes from exports. The company exports primarily to the US and the EU. Any adverse currency movements can affect the topline.

Slower-than-expected revival in exports revenues in FY24.

We expect strong exports business in the coming years supported by ~60% order book. However, any slowdown in export markets may have a negative impact on the financials.

Rise in EV penetration

Although we believe that Sansera's portfolio is currently immune to the EV transition as it has a very marginal exposure to the Scooters and 3W segment which are electrifying at a faster pace compared to other segments, it may be at a risk if EV picks up at a higher than expected pace which may hinder the performance of its Auto segment growth.

Outlook & Valuation

According to management, the Indian automotive industry is propelling manufacturing growth and emerging as a significant exporter, creating heightened opportunities for the auto-component sector. Additionally, global OEMs are directing their attention towards both ICE platforms and EVs, with ICE programs being extended beyond 2032. The management expects the auto industry to grow 7-8% in FY25, and Sansera to grow 2x the industry.

We expect 20% revenue CAGR for Sansera to be equally driven by four aspects in the form of domestic 2W volume growth and mix improvement, exports revival including aerospace business expansion, global EV proliferation and lastly execution of fresh projects. Thus, with better revenue mix and higher content per vehicle, we expect EBITDA margins to improve to ~17-18% in FY24-25E, post taking care of investment for new product development. With gross debt largely remaining unchanged, we expect net debt/equity to go down slightly to ~0.4x by FY25E (vs.~0.5x in FY23), as Sansera would continue to be on expansion mode. Thus, with better asset seating and improved profitability, we expect Sansera to cross ~20% RoCE by FY26E, despite continuing in expansion mode and do close to ₹3bn p.a. of capex. With non auto - ICE already at 24% of revenue, Sansera is expecting that to cross 40% by FY26, thus de-risking it largely from the EV disruption by securing and executing larger quantum of orders from its current non-ICE portfolio. But over and above that, Sansera is focusing on creating a much larger non-auto portfolio by using its existing core capabilities. With RoCE of ~15%, Sansera has rightfully traded below other diversified domestic auto component players like Endurance, Sona BLW, Suprajit, Minda, Bharat Forge etc. and we believe the ongoing diversification along with execution of profitable growth would be the right catalyst for Sansera to become a well-regarded quality long term market cap compounding company. We initiate coverage on Sansera with a BUY rating and a target price of ₹1,251 at PE of 19x FY26E EPS (currently trading at PE multiple of ~16x FY26E EPS) v/s average PE of 18x.

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Total Revenues	**19,890**	**23,383**	**27,523**	**32,735**	**39,282**
Raw Material Cost	8,641	10,175	11,987	14,136	16,897
Employee Cost	2,774	3,180	3,655	4,260	5,050
Other Exp	5,120	6,234	7,265	8,585	10,266
EBITDA	**5,120**	**6,234**	**7,265**	**8,585**	**10,266**
EBITDA Margin(%)	16.9%	16.2%	16.8%	17.6%	18.0%
Depreciation	1,197	1,301	1,574	1,790	2,130
EBIT	**2,158**	**2,494**	**3,041**	**3,963**	**4,940**
EBIT Margin(%)	10.9%	10.7%	11.0%	12.1%	12.6%
Other Income	155	178	209	220	235
Interest	530	640	617	598	572
PBT	**1,784**	**2,032**	**2,633**	**3,585**	**4,603**
PBT Margin(%)	9.0%	8.7%	9.6%	11.0%	11.7%
Tax	465	549	661	903	1,119
Adjusted PAT	**1,319**	**1,483**	**1,972**	**2,681**	**3,483**
APAT Margins (%)	6.6%	6.3%	7.2%	8.2%	8.9%
Exceptional items	0	0	0	0	0
PAT	**1,319**	**1,483**	**1,972**	**2,681**	**3,483**
PAT Margins (%)	6.6%	6.3%	7.2%	8.2%	8.9%

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Per Share Data (Rs)					
Adj. EPS	25.0	27.6	37.3	50.7	65.8
CEPS	52.7	52.6	67.0	84.5	106.1
BVPS	193.5	220.8	255.5	302.6	363.8
DPS	0.0	0.0	0.0	2.0	2.6
Growth Ratios(%)					
Total revenues	28.4%	17.6%	17.7%	18.9%	20.0%
EBITDA	22.3%	13.1%	21.6%	24.7%	22.9%
EBIT	25.1%	15.6%	21.9%	30.3%	24.6%
PAT	20.1%	12.5%	33.0%	36.0%	29.9%
Valuation Ratios (X)					
PE	41.3	37.4	27.7	20.4	15.7
P/CEPS	19.6	19.6	15.4	12.2	9.7
P/BV	5.3	4.7	4.0	3.4	2.8
EV/Sales	2.8	2.4	2.1	1.7	1.4
EV/EBITDA	16.8	14.9	12.3	9.9	8.0
Operating Ratios (Days)					
Inventory days	117.3	133.1	140.0	141.0	142.0
Recievable Days	75.0	67.5	64.0	62.0	60.0
Payables day	48.7	45.7	44.0	42.0	40.0
Net Debt/Equity (x)	0.47	0.45	0.41	0.33	0.24
Profitability Ratios (%)					
ROCE	14.6%	15.1%	16.4%	18.8%	20.2%
ROE	16.6%	16.2%	18.7%	21.8%	23.3%
Dividend payout ratio (%)	0.0%	0.0%	0.0%	3.9%	4.0%
Dividend yield(%)	0.0	0.0	0.0	0.0	0.0

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
Equity and Liabilities					
Equity Share Capital	104	106	106	106	106
Reserves & Surplus	10,130	11,573	13,408	15,901	19,141
Total Networth	**10,234**	**11,679**	**13,514**	**16,007**	**19,247**
Total debt	2,335	2,630	2,830	2,930	3,030
Deferred tax assets/liabilities	642	689	689	689	689
Other non curent liabilities	1,503	1,338	1,338	1,338	1,338
Total non-current liab & provs	**4,480**	**4,656**	**4,856**	**4,956**	**5,056**
Current Liabilities					
Trade payables	2,653	2,927	3,318	3,767	4,305
Short term provs+ borrowings	3,141	3,233	3,433	3,233	3,033
Other current liabilities	1,583	1,993	1,993	1,993	1,993
Total current liab and provs	**7,377**	**8,152**	**8,743**	**8,992**	**9,331**
Total Equity & Liabilities	**22,210**	**24,629**	**27,254**	**30,097**	**33,774**
Assets					
Net block	12,394	13,936	15,062	15,972	16,842
Capital WIP	1,224	757	857	1,007	1,207
Other non current assets	646	792	792	792	792
Total fixed assets	**14,265**	**15,485**	**16,710**	**17,770**	**18,840**
Cash and cash equivalents	503	616	629	814	1,412
Inventories	2,776	3,710	4,826	5,560	6,457
Trade receivables	4,086	4,327	4,598	5,461	6,574
Other current assets	580	491	491	491	491
Total current Assets	**7,945**	**9,144**	**10,543**	**12,326**	**14,934**
Total Assets	**22,210**	**24,629**	**27,254**	**30,097**	**33,774**

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E	FY 26E
PBT	1,784	2,032	2,633	3,585	4,603
Depreciation	1,197	1,301	1,574	1,790	2,130
Interest	510	615	617	598	572
Chng in working capital	-938	-765	-995	-1,149	-1,472
Tax paid	-429	-556	-661	-903	-1,119
Other operating activities	7	-63	-	-	-
Cash flow from operations (a)	**2,131**	**2,564**	**3,168**	**3,921**	**4,713**
Capital expenditure	-2,675	-2,432	-2,800	-2,850	-3,200
Chng in investments	103	-7	-	-	-
Other investing activities	14	16	-	-	-
Cash flow from investing (b)	**-2,553**	**-2,409**	**-2,800**	**-2,850**	**-3,200**
Free cash flow (a+b)	**-422**	**155**	**368**	**1,071**	**1,513**
Inc/dec in borrowings	506	672	400	-100	-100
Dividend paid (incl. tax)	-	-105	-138	-188	-244
Interest paid	-515	-602	-617	-598	-572
Other financing activities	82	47	-	-	-
Cash flow from financing (c)	**465**	**-62**	**-268**	**-886**	**-916**
Net chng in cash (a+b+c)	**43**	**94**	**100**	**185**	**597**
Opening cash and equivalents	398	417	529	629	814
Effect of forex	-25	18	-	-	-
Closing cash & cash equivalents	**417**	**529**	**629**	**814**	**1,412**

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