SANSERA ENGINEERING LIMITED

Decent numbers in challenging environment

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We witnessed a decent performance in Q2 FY25 for the company, wherein the top line grew by 10.2% on consol basis, which was mainly driven by the Tech Agnostic, x-EV and the 2W ICE business. Q2 sales were mainly driven by 2W ICE business which grew by 21%, while PV de-grew by 8%, Tech Agnostic and xEV posted a whopping 53% sales growth, while Non Auto sales dropped by 20% on the back of weak performances from Agri and OTR segments. Aerospace business also posted muted performance as it showed a flattish growth yoy. EBITDA grew by 13% yoy and 4.4% qoq at ₹1.33 bn, while margins came at 17.4%, up from 17% yoy and 30 bps up qoq on better product mix tilted towards exports (32% of topline), prudent cost control measures and operating leverage along with benign RM prices. PAT was reported at ₹519 mn, a growth of 9.2% yoy, and 3.5% qoq. The yoy growth came despite a 14.8% hike in depreciation led by new plant commencement and increased interest expenses on debt couple of quarters ago.

Volume drivers remain intact for the ensuing years

Sansera's 2W ICE segment growth was mainly driven by the growth in the underlying 2W segment on premiumization happening there and continuation of meaningful orders from existing clients like TVS, Bajaj Auto and HMSI. On the PV side, weakness in the domestic and exports markets led to 8% decline, however, new launches and new client addition (Ford Motors for connecting rods in Q2) shall lead to recovery in PV segment. With proliferation of EV industry globally, we expect the superlative performance of Tech Agnostic and xEV segments to continue and report ~40-50% growth in these segments.

On the Non-Auto side, delay of orders from a big client led to subdued sales in the Aerospace segment. Management expects higher air traffic and procuring the delayed order in Q3 to lead to recovery. Weak agri sales should improve Q3 onwards on good monsoon, while OTR sales weakness shall be well offset by other segments. The company's order book of ₹20 bn was a result of an addition of ₹3.2 bn in Q2 on the back of higher non-auto orders. The company has first time secured an order from a semi-conductor equipment client (55% of Non-Auto order book of ₹5 bn). This should start adding to the topline from Q1 FY26. 37% out of the rest was secured from Aerospace and defense segments. Sansera has also signed and MoU with Dynamite Technologies for supplying Aerospace parts, which would add ~₹530 mn annually to the topline, starting production from Q1 FY26. Therefore, we believe that the topline growth for the company should be well bolstered over the next couple of years.

Key Financials	FY 23	FY 24	FY 25E	FY 26E
Total sales (₹ bn)	23.5	28.1	31.9	36.8
EBITDA margins (%)	16.4%	17.1%	17.4%	18.0%
PAT margins (%)	6.3%	6.7%	7.6%	8.6%
EPS (₹)	27.6	35.5	45.8	59.9
P/E (x)	53.8	41.9	32.4	24.8
P/BV (x)	6.6	5.8	4.9	4.2
EV/EBITDA (x)	20.9	16.8	14.5	12.0
ROE (%)	16.2%	18.8%	21.9%	23.3%
ROCE (%)	15.5%	18.2%	18.9%	20.5%
Net debt/equity (x)	0.55	0.54	0.45	0.32

BUY

Current Market Price (₹)	:	1,481
12M Price Target (₹)	:	1,676
Potential Return (%)	:	13

Stock Data	
Sector :	Automobile & Auto Components
FV (₹) :	2
Total Market Cap (₹ bn) :	91
Free Float Market Cap (₹ bn) :	63
52-Week High / Low (₹) :	1,758 / 821
BSE Code / NSE Symbol	543358 / SANSERA
Bloomberg :	SANSERA IN

Shareholding Pattern

(%)	Oct-24	Jun-24	Mar-24	Dec-23
Promoter	30.43	34.78	35.03	35.05
FPI's	18.47	15.55	22.12	22.73
MFs	27.81	23.80	17.56	18.22
AIF's	4.16	1.53	1.66	1.39
Insurance	7.60	9.34	9.34	8.61
Others	11.53	15.00	14.29	14.00

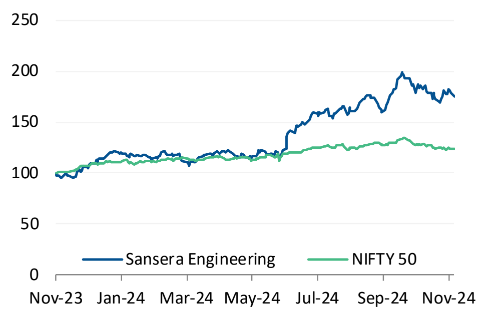
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Sansera	-7.9%	6.2%	46.7%	70.7%
Nifty 50	-4.3%	-1.9%	8.3%	22.3%

** To date / current date : November 12, 2024*

Sansera vs Nifty 50



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Profitability to increase going forward

We expect the company to post EBITDA/PAT growth of ~18%/30% CAGR over FY24-26E on account of the sales mix tilting towards Tech Agnostic/xEV & non- Auto ICE components, fungible production lines, higher contribution of exports business in order book (60%), and recovery in Sweden operations led by higher volumes, improved operational efficiency and automation. This gives us confidence that the company's consolidated EBITDA margins will accelerate above 18% by FY26E from around 17.1% in FY24.

Quarterly Consolidated

YE Mar (₹ mn)	Q2 FY25	Q1 FY25	% qoq	Q2 FY24	% yoy
Total Income	7,634	7,439	2.6%	6,929	10.2%
RM cost	6,303	6,164	2.2%	5,751	9.6%
Employee cost	1,101	1,068	3.0%	934	17.8%
Other expenses	2,078	2,054	1.2%	1,817	14.4%
EBITDA	1,331	1,275	4.4%	1,178	13.0%
EBITDA Margins %	*17.4%*	*17.1%*	*30 bps*	*17.0%*	*40 bps*
Other income	39	4	870.4%	10	292.1%
Depreciation	425	400	6.4%	371	14.8%
Interest	230	193	19.2%	180	27.6%
PBT	715	687	4.1%	637	12.2%
Tax	195	185	5.7%	162	20.9%
Adj PAT	519	502	3.5%	476	9.2%
Adj PAT Margins%	*6.8%*	*6.7%*	*10 bps*	*6.9%*	*(10 bps)*
Exceptional items	-	-	N/A	-	N/A
Reported PAT	519	502	3.5%	476	9.2%

Source: Company, LKP Research

Outlook and Valuation

The Indian automotive industry is propelling manufacturing growth and emerging as a significant exporter, creating heightened opportunities for the auto-component sector. The management expects to grow an additional 8-10% to the average industry on the Auto side of business in the coming years while 35-40% yoy growth in Non-Auto as diversification remains the key to success of Sansera.

Driven by factors such as a) Higher sales mix in Tech Agnostic/xEV and Non Auto side on the back of strong order book, b) Higher exports (60% of order book), c) The management's focus on improving margin profile, d) The company's capability to generate strong operating cash flows e) Capacity expansion plans (Karnataka and Pantnagar) f). Debt reduction and thereby reducing the interest costs g). Addition of new clients and business line, we believe the stock is currently trading at a reasonable forward PE multiple of 25x (based on our FY26 EPS estimates). We expect Revenue/EBITDA/PAT to grow at a 14%/18%/30% CAGR over FY24-26E.

Keeping in view the above factors, we maintain our BUY rating and comfortably assign a forward P/E multiple of 28x on FY26 EPS to arrive at our TP of ₹1,676, with an upside potential of 13%.

Q2 FY25 Con-Call Highlights

- The Auto ICE segment grew by 9% yoy, driven by a strong 21% increase in the two-wheeler segment.
- The Auto Tech Agnostic and xEV segment demonstrated impressive 53% yoy growth, fueled by increased order fulfilment for a key North American EV client, with peak performance still anticipated ahead.
- The Non-Auto segment saw a 20% yoy decline, largely due to weakness in the off-road and agriculture sectors.
- The aerospace business faced challenges that affected its order execution.
- As of September 2024, the order book totalled ₹20 bn, with emerging businesses (non-auto and auto-tech agnostic & xEV) contributing 51% and international markets accounting for 60%.
- New orders amounting to ₹3.2 bn were secured during the quarter, driven by both auto and non-auto sectors.
- Management expects the Non-Auto segment to improve in the coming quarters, supported by a stronger monsoon and recent order wins, including a major stationary engine client and entry into semiconductor equipment manufacturing.
- The aerospace business anticipates a gradual recovery, supported by strong air traffic growth and the resolution of labour issue at a major client.
- Strong festive sales were seen in October, although there is some softness in export demand.
- The goal is to achieve 40-50% CAGR growth in the aerospace and defense sector over the next 2-3 years.
- The PV industry has a positive outlook, with new programs scheduled to launch in Q1 of the upcoming fiscal year.
- The company plans to reduce interest expenses by around ₹550 mn annually by repaying ₹7bn mn in debt by March 2025, using proceeds from the QIP.
- The company successfully raised ₹12bn through a Qualified Institutional Placement (QIP). The funds will be used for debt repayment, capacity expansion, and strategic initiatives.
- The company is expanding its capabilities by establishing a new 55-acre manufacturing facility in Harohalli, Karnataka, which will include new forging and machining lines. Additionally, it is expanding the factory buildings at Plant 9 and the Pantnagar plant.
- The company is strengthening its professional team by making strategic senior leadership hires with extensive experience in the automotive and related industries.
- The company aims to maintain EBITDA margins, with potential for growth through product diversification, cost improvements, increased volume, and higher capacity utilization in the long term.

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Income Statement

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Total Revenues	**23,460**	**28,114**	**31,903**	**36,819**
Raw Material Cost	10,175	12,175	13,761	15,694
Employee Cost	3,180	3,798	4,275	4,985
Other Exp	6,258	7,343	8,306	9,514
EBITDA	**6,258**	**7,343**	**8,306**	**9,514**
EBITDA Margin(%)	16.4%	17.1%	17.4%	18.0%
Depreciation	1,301	1,495	1,676	1,788
EBIT	**2,547**	**3,304**	**3,885**	**4,837**
EBIT Margin(%)	10.9%	11.8%	12.2%	13.1%
Other Income	101	24	92	115
Interest	615	770	676	641
PBT	**2,033**	**2,558**	**3,301**	**4,312**
PBT Margin(%)	8.7%	9.1%	10.3%	11.7%
Tax	549	682	876	1,145
Adjusted PAT	**1,484**	**1,875**	**2,425**	**3,167**
APAT Margins (%)	6.3%	6.7%	7.6%	8.6%
Exceptional items	0	0	0	0
PAT	**1,484**	**1,875**	**2,425**	**3,167**
PAT Margins (%)	6.3%	6.7%	7.6%	8.6%

Key Ratios

YE Mar	FY 23	FY 24	FY 25E	FY 26E
Per Share Data (₹)				
Adj. EPS	27.6	35.5	45.8	59.9
CEPS	52.6	63.7	77.5	93.7
BVPS	223.4	257.7	300.3	356.0
DPS	0.0	0.0	2.0	2.5
Growth Ratios(%)				
Total revenues	17.9%	19.8%	13.5%	15.4%
EBITDA	14.7%	24.7%	15.9%	19.1%
EBIT	18.0%	29.7%	17.6%	24.5%
PAT	12.5%	26.4%	29.3%	30.6%
Valuation Ratios (X)				
PE	53.8	41.9	32.4	24.8
P/CEPS	28.2	23.3	19.2	15.9
P/BV	6.6	5.8	4.9	4.2
EV/Sales	3.4	2.9	2.5	2.2
EV/EBITDA	20.9	16.8	14.5	12.0
Operating Ratios (Days)				
Inventory days	133.1	125.6	124.0	130.0
Recievable Days	67.3	60.0	58.0	57.0
Payables day	45.5	46.2	42.0	40.0
Net Debt/Equity (x)	0.55	0.54	0.45	0.32
Profitability Ratios (%)				
ROCE	15.5%	18.2%	18.9%	20.5%
ROE	16.2%	18.8%	21.9%	23.3%
Dividend payout ratio (%)	0.0%	0.0%	4.3%	4.2%
Dividend yield(%)	0.0	0.0	0.0	0.0

Balance Sheet

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
Equity and Liabilities				
Equity Share Capital	106	107	107	107
Reserves & Surplus	11,713	13,525	15,780	18,726
Total Networth	**11,819**	**13,632**	**15,887**	**18,833**
Total debt	2,630	2,516	2,616	2,716
Deferred tax assets/liabilities	689	693	693	693
Other non curent liabilities	1,338	1,323	1,320	1,320
Total non-current liab & provs	**4,656**	**4,531**	**4,628**	**4,728**
Current Liabilities				
Trade payables	2,927	3,557	3,671	4,035
Short term provs+ borrowings	4,521	5,551	5,351	5,151
Other current liabilities	704	656	656	656
Total current liab and provs	**8,152**	**9,764**	**9,678**	**9,842**
Total Equity & Liabilities	**24,627**	**27,928**	**30,194**	**33,403**
Assets				
Net block	13,936	15,839	16,862	17,374
Capital WIP	757	835	985	1,185
Other non current assets	792	1,259	1,259	1,259
Total fixed assets	**15,484**	**17,932**	**19,106**	**19,817**
Cash and cash equivalents	616	630	789	1,692
Inventories	3,710	4,189	5,070	5,750
Trade receivables	4,327	4,622	4,675	5,590
Other current assets	490	554	554	554
Total current Assets	**9,143**	**9,995**	**11,088**	**13,586**
Total Assets	**24,627**	**27,928**	**30,194**	**33,403**

Cash Flow

(₹ mn)	FY 23	FY 24	FY 25E	FY 26E
PBT	2,032	2,562	3,301	4,312
Depreciation	1,301	1,495	1,676	1,788
Interest	615	770	676	641
Chng in working capital	-824	-396	-819	-1,231
Tax paid	-556	-654	-876	-1,145
Other operating activities	-5	-34	-	-
Cash flow from operations (a)	**2,564**	**3,743**	**3,958**	**4,365**
Capital expenditure	-2,432	-3,373	-2,850	-2,500
Chng in investments	7	-	-	-
Other investing activities	16	-275	-	-
Cash flow from investing (b)	**-2,409**	**-3,683**	**-2,850**	**-2,500**
Free cash flow (a+b)	**155**	**60**	**1,108**	**1,865**
Inc/dec in borrowings	672	-237	-100	-100
Dividend paid (incl. tax)	-105	-133	-170	-222
Interest paid	-557	-743	-676	-641
Other financing activities	47	32	-	-
Cash flow from financing (c)	**-62**	**-79**	**-805**	**-962**
Net chng in cash (a+b+c)	**93**	**-19**	**303**	**902**
Opening cash and equivalents	383	495	486	789
Effect of forex	18	10	-	-
Closing cash & cash equivalents	**495**	**486**	**789**	**1,692**

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