

Strong order book visibility; FY24 would be better for exports

CMP: INR 968

Rating: Buy

Target Price: INR 1,229

Stock Info

BSE	543358
NSE	SANSERA
Bloomberg	SANSERA IN
Sector	Automobile & Ancillaries
Face Value (INR)	2
Equity Capital (INR Mn)	106
Mkt Cap (INR Mn)	516,62
52w H/L (INR)	998/673
Avg Yearly Vol (in 000')	74

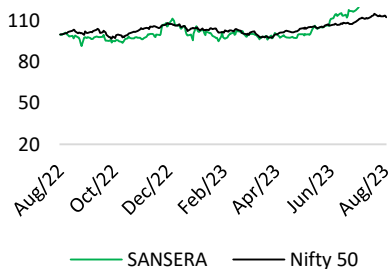
Shareholding Pattern %

(As on March, 2023)

Promoters	35.23
DII's	17.90
FII's	30.34
Others	10.13

Stock Performance (%)	1m	3m	12m
Sansera	11.1	30.4	30.8
Nifty	1.7	7.6	12.5

Sansera Vs Nifty



Sansera Engineering reported a strong set of numbers consolidated revenue from operations grew by +24% YoY/6.7% QoQ stood at INR 6601 mn in Q1FY24 against our estimate of INR 6,350 mn. The revenue growth led by International business grew by 35% while domestic business registered a healthy 20% growth. EBITDA for the quarter stood at INR 1143.5 against our estimate of INR 980 Mn registered growth of 25% QoQ/18% YoY. The company's EBITDA margin expanded by 178bps QoQ/14bps YoY to 17.32% due to softening in raw material prices. (Our estimate of Margin 15.4%). Net profit for the quarter grew by 27.5% QoQ/29.9% YoY of INR 451.7 mn in Q1FY24 against our estimate of INR 385 Mn. EPS at INR 8.43 in Q1FY24 against INR 6.6 in Q4FY23 and INR 6.52 in Q1FY23.

Investment Rationale

Robust order book led by the addition of new customers: In Q1FY24, the company achieved INR 16.9bn peak annual revenue, driven by growth in the Auto ICE segment (47%) and Auto Tech & xEV (30%). Repeat orders from General Motors, Stellantis, TVS, Collins Aerospace, Cummins, and a new partnership with TATA Motors signify a promising outlook for future growth and expansion.

Export will be better in FY24 led by the Sweden subsidiary: In Sweden, stabilization efforts paid off as the company gains momentum and sees potential for growth in final customer discussions. Q1 showed a 35% YoY growth with 12% EBITDA, aiming for 9-10% margin, and anticipates >50% YoY export growth in FY24.

Strong traction in Aerospace & Defence: The company's current sales contribute to 3.2%, but with strong growth expectations for the next two years. Off Road and Agri segments contribute 4.3% and 2.7% respectively, with the remaining 1.5% from other segments. A&D revenues were lower due to facility shifting, but after approval, a 50% YoY growth is anticipated, boosted by large orders from Indian carriers and recognition for quality. Sansera's Aerospace division and improve penetration. Actively scanning for opportunities.

Capex augur well for the incremental revenue: The company is focusing on new generation components (hybrids and defines components). Recently started construction of a new brownfield facility 150,000 sq ft. of built-up area. Largely for Aluminium forged and machined components. For FY24 Capex is of 3000 Mn, for Non-Auto and Auto ICE. The Company has not committed any capex for the US plant. Primarily to cater to capacity expansion and line balancing to the existing lines and the machining facility under construction. Aluminium, based on order inflows it is adding 2 additional presses.

Outlook and valuation

Sansera Engineering reported strong set of numbers in Q1FY24 and anticipating a stronger performance in the FY24, we expect to benefit from the recovery of exports, robust growth in the aerospace sector, and a favorable performance in the PV segment. Additionally, we foresee the recovery of key clients, particularly Bajaj Auto, in terms of exports. The order book, valued at INR 17.0 bn, primarily consists of technology-agnostic, EV, and non-automotive projects. The company plans to invest INR 3000 Mn in non-automotive and non-ICE initiatives, with a focus on achieving a projected CAGR of ~35% in earnings from FY23 to FY26. The company is actively involved in the non-automotive sector, the opportunity is quite strong. Indian carriers like Air India, TATA Group & Indigo collectively have placed the largest orders. **We value the stock on a P/E (x) multiple of 18x to its FY26E earnings of INR 68.3 EPS to arrive target price of INR 1,229 and continue maintaining our Buy rating on the stock.**

Exhibit 1 : Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoCE (%)	P/E (x)
FY22	19,890	3,336	1,305	25.3	16.8%	9.63%	38.3
FY23	23,418	3,805	1,497	27.7	16.2%	10.2%	34.9
FY24E	28,017	4,903	2,248	42.9	17.5%	12.69%	22.6
FY25E	32,085	5,904	2,851	54.3	18.4%	14.1%	17.8
FY26E	36,694	6,880	3,592	68.3	18.8%	15.09%	14.2

Source: Arihant Research, Company Filings

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Exhibit 2 : Q1FY24 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INRm)	Q1FY24	Q4FY23	Q1FY23	QoQ%	YoY%
Net Sales	6,601	6,186	5,322	6.7%	24.0%
Cost of material consumed	3,084	2,698	2,487	14.3%	24.0%
Changes in inventories	(190)	58	(326)	-425.6%	-41.9%
COGS	2,894	2,757	2,161	5.0%	33.9%
GP	3,706	3,429	3,161	8.1%	17.2%
Employees benefits expense	910	842	774	8.1%	17.5%
Other expenditure	1,653	1,625	1,472	1.7%	12.3%
EBITDA	1,144	962	915	18.9%	25.0%
Depreciation	349	347	307	0.4%	13.5%
EBIT	795	614	608	29.4%	30.8%
Other Income	4	45	7	-90.5%	-40.3%
Finance costs	189	173	137	9.5%	38.5%
PBT	610	486	478	25.5%	27.6%
Current Tax	141	112	124	26.5%	13.8%
Deferred tax	17	20	6	-16.7%	183.0%
Tax	158	132	130	19.9%	21.4%
Adjusted PAT	452	354	348	27.5%	29.9%
Non-controlling interests	4.5	2.8	6.7	-	-
Reported PAT	447.2	351.4	341.1	27.2%	31.1%
EPS	8.4	6.6	6.5	27.0%	29.3%
Margins	Q1FY24	Q4FY23	Q1FY23	QoQ%	YoY%
Gross margins	43.8%	44.6%	40.6%	-71Bps	325Bps
EBITDA	17.32%	15.55%	17.19%	178Bps	14Bps
Adjusted PAT	6.8%	5.7%	6.5%	112Bps	31Bps
Tax Rate	25.9%	27.1%	27.2%	-119Bps	-131Bps
Effective Tax Rate	25.9%	27.1%	27.2%	-119Bps	-131Bps
Cost Analysis					
RM/Net Sales	46.72%	43.62%	46.74%	310Bps	-2Bps
Other Exp/Net Sales	25.04%	26.28%	27.66%	-124Bps	-262Bps
Staff cost/Net sales	13.79%	13.62%	14.55%	17Bps	-76Bps

Source: Arianth Research, Company Filings

Conference Call Highlights

Strong performance in Q1 on the back of growth in domestic and international markets. Looking to grow 2x of the automobile industry.

Industry Overview

PV sales stood at 9.9lac units (9% YoY) 2W 41.4mn units (11% YoY). Overall, growing at a healthy pace. OEMs have lined up launches in H2, which should aid Sansera.

Auto Tech & Xev

Segments continued to improve by 70% YoY led by xEV products (~12 to overall sales; 6.6% auto tech and 5.3% from xEV). Auto ICE 19.6% YoY growth on the back of 2W and PV components. Added a new customer in PVs. Auto ICE 76.4% of overall sales. (35.3% Motorcycles, Scooters 5%, PV 23.8% CV 11% to top line). Non-Auto 27% YoY (11.7% of total revenues).

Aerospace & Defence

Contributing to 3.2% of total sales. The company is expecting strong growth in the upcoming 2 years. Revenue contribution from Off Road 4.3% Agri 2.7% and balance 1.5% from other segments. A&D revenues were lower due to the shifting of lines to its new facility. It required customer approval. It has now been approved, which led to a small delay. Expects a 50% YoY growth.

The opportunity is quite strong. Indian carriers like Air India, TATA Group & Indigo collectively have placed the largest orders. Recently got awarded the 2nd highest award for quality from Ratheon group. Now getting higher value added parts.

Strong order pipeline

Annual peak revenue stood at INR 16.9bn in Q1FY24 against INR 13.3bn was in Q4FY23. The growth in orderbook led by Auto ICE segment. Auto ICE 47% (INR 8.04bn), Auto Tech & xEV 30% (INR 5.09bn) and Non-Auto 23% (INR 3.8bn).

The company received repeat orders from General motors (INR 87cr peak annual revenues), Stellantis (INR 67cr), TVS, Collins Aerospace and Cummins (INR 40cr) another marquee EV customer (INR 70cr).

Capex

The company is focusing on new generation components (hybrids and defines components). Recently started construction of a new brownfield facility 150,000sq ft. of built-up area. Largely for Aluminium forged and machined components. For FY24 Capex is of 3000 Mn, for Non-Auto and Auto ICE.

The Company has not committed any capex for the US plant. Primarily to cater to capacity expansion and line balancing to the existing lines and the machining facility under construction. Aluminium, based on order inflows it is adding 2 additional presses.

Geographic

India contributing 68.4% of total revenue; Europe 19.5% of total revenue & US is of 9%. Other foreign countries of 3.1%. In Sweden, a lot of stabilization activity was carried out last year. It has now come on track. Presently on final discussion with customers and seeing a good potential for growth. This quarter, the company has gained significantly. Hopeful for the European market and customer demand to grow strong.

Exports

FY24 would be better for exports. Swedish subsidiary witnessed a 35% YoY growth with EBITDA at 12% in Q1. The company expects to reach 9-10% EBITDA margin. Export expect to grow >50% yoy as last year base was low.

Net Debt

INR 7.2bn on the back of an increase in inventory to support revenue growth. Q1 is generally weaker than Q4, however, this qtr has been a one-off. Debt levels have gone up on the back of working capital requirements. Rs680-700cr is the debt target for FY24. The credit & collection period is relatively higher in international markets.

MMRFIC

Sansera has invested ~INR 200Mn ~21% stake with the right to go up to 51% at a capped valuation (18-24 month time period). The company has no plans as of now to increase its stake to 51% as of now. The company would increase the stake in the next.

Two wheeler

Strong partnership with Royal Enfield, got a good order for Bajaj Triumph & 100% with Hero Harley. This segment is looking good.

Content per vehicle

Content per vehicle is significantly improving on the back of aluminium light-weighting.

Customer

In PV, added TATA. Maruti's SOB is going up. Export, Toyota is doing very well (Sansera is a key customer for connecting rods and hybrid components). TATA Motors, started production of ~75,000 connecting rods per month only, other components are being tested. Relation started in the 3rd quarter of last year, it is expected to improve gradually.

Production

In two wheeler sales have not picked up as expected. August, Sept and Oct should be reasonably good for 2Ws. Pressure on the entry-level segment persists. Premium models have seen better traction and Sansera has better contribution here. Expects 2Ws to be very strong for industry and Sansera.

Facility

The capex is for additional capacity for the machining facility at Bidadi. Mainly towards exports, Cummins connecting rods would be manufactured there. INR 400-420cr of revenues in FY24. At full capacity, it should be 2x.

Investment in a high-tech company, where it's focused on Sansera's Aerospace division and improve penetration. Actively scanning for opportunities.

Top 5 customers

The company contribution has increased over time. From the top 4, only 2 of them are >10%. 1st is Bajaj. The company's strategy: It would like to grow with the customers and wants less dependency on 1 customer. Last year, the top 5 contributed 52% and today it contributes 47%.

New customers

Cummins is the new customer. GM, FCA & Tesla are existing customers. Order book would start peaking from 2nd to 3rd year onwards. The INR 366mn order they have received (Cummins) would start accruing from a year later and would peak in 2-3 years.

Despite the production of automobiles (4Ws) being expected to remain tepid, the company would be growing on the back of consolidation of 2W business (eg. TVS), new addition of businesses and premiumization of businesses. Q1 contribution is coming from TVS, royal Enfield and Aluminium forged components. TVS has grown by 30%, TVS: 30% Auto Ice, Tech Agnostic and EV by ~100%, while royal Enfield has significantly improved content per vehicle.

Other highlights

Power and Fuel INR 1074mn.

The company is focusing on 2 segments 1) Defence and 2) Surveillance radar. They have gotten a European company on board for a credit card-shaped radar and awaiting final confirmation.

Exhibit 3 : Revenue Mix

Sales mix (%)	Q1FY24	Q1FY23	Q4FY23	FY23	FY22
Auto – ICE	76.40%	79.80%	74.70%	77.70%	83.40%
Auto-Tech Agnostic & xEV	11.90%	8.70%	11.30%	10.40%	6.10%
Auto-Tech Agnostic	6.60%	6.80%	6.10%	6.60%	5.70%
xEV	5.30%	1.90%	5.20%	3.80%	0.40%
Non-Auto	11.70%	11.50%	14.00%	11.90%	10.50%

Source: Company, Arihant Research

Story in charts (INR in Mn)

Exhibit 4: Revenue growth led by healthy growth in domestic and international business

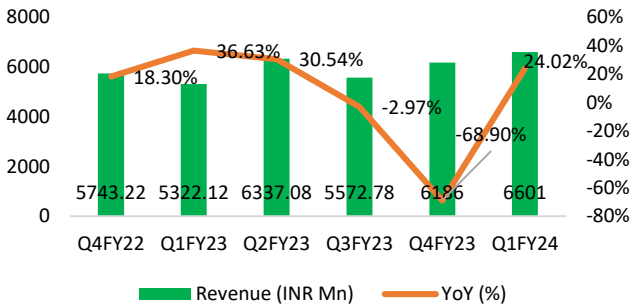


Exhibit 5: Margins to improve in coming 2 years led by better export and softening in RM

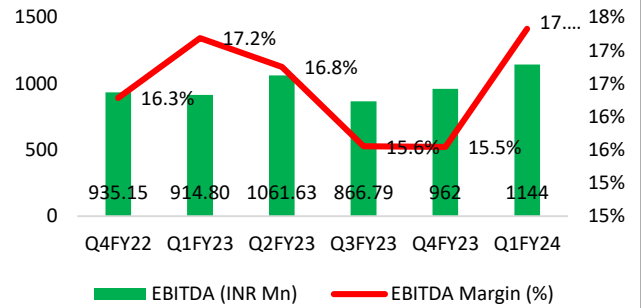


Exhibit 6: Strong profit growth to be seen on back of strong order book

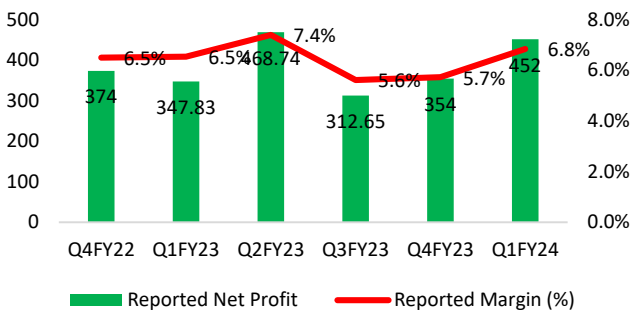


Exhibit 6: Visible growth in the revenue contribution from xEV segment

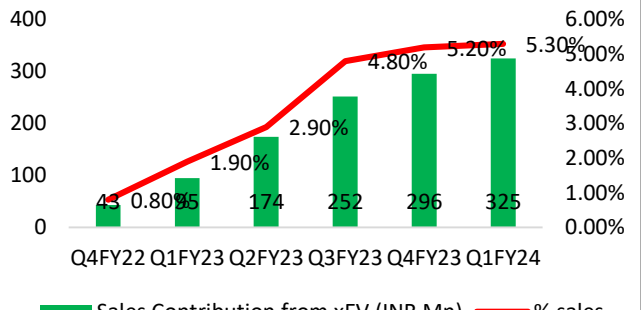


Exhibit 7: Orderbook (peak annual revenues for new business); 408 LOIs/Purchase Orders from 76 customers in the auto and 43 customers in the non-auto sector

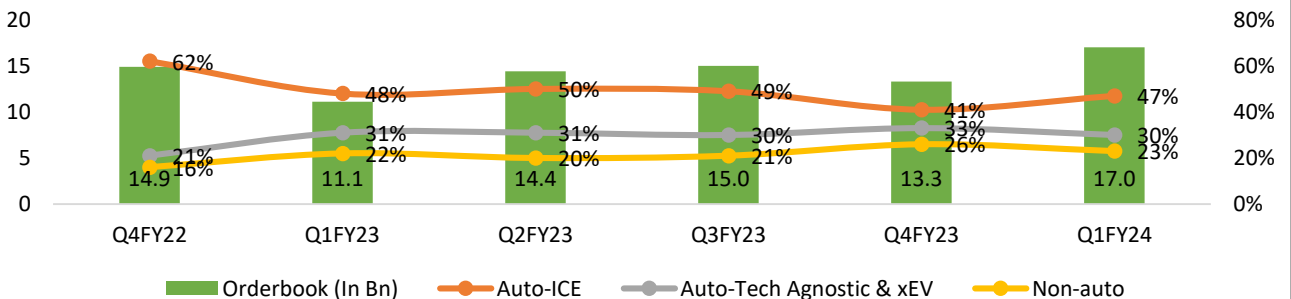


Exhibit 8: Orderbook Geographies wise

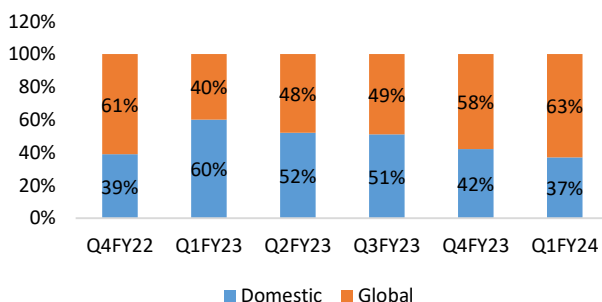
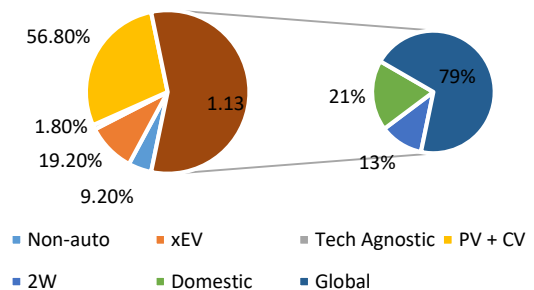


Exhibit 9: 3.67 Bn Orders received in Q1FY24



Source: Company, Aриhant Research

Key Financials

Income Statement Consolidated (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	19,890	23,418	28,017	32,085	36,694
<i>Change (%)</i>	28.4%	17.7%	19.6%	14.5%	14.4%
Cost of Goods Sold (COGS)	11,896	14,162	16,530	18,930	21,650
Gross Profit	7,994	9,256	11,487	13,155	15,045
Employee costs	2,774	3,180	3,502	4,043	4,568
Other expenses	1,885	2,272	3,082	3,208	3,596
Total Expenses	16,554	19,613	23,114	26,181	29,814
EBITDA	3,336	3,805	4,903	5,904	6,880
EBITDA Margin	16.77%	16.25%	17.50%	18.40%	18.75%
Depreciation	1,197	1,301	1,433	1,565	1,624
EBIT	2139	2504	3470	4339	5256
Interest	510	615	635	666	677
Other Income	155	178	191	209	239
PBT	1,784	2,067	3,026	3,882	4,818
Exceptional Items	-	-	-	-	-
PBT after exceptional items	1,784	2,067	3,026	3,882	4,818
Tax	465	549	757	1,009	1,204
<i>Rate (%)</i>	26.1%	26.0%	26.0%	26.0%	26.0%
PAT	1,305	1,497	2,248	2,851	3,592
PAT Margin (%)	6.6%	6.4%	8.0%	8.9%	9.8%

Balance Sheet Consolidated (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	104	106	106	106	106
Reserves & Surplus	10,130	11,573	13,874	16,725	20,317
(b) Instruments entirely equity in nature	-	-	-	-	-
(d)non-controlling intrest	119	140	140	140	140
Net Worth	10,353	11,820	14,121	16,972	20,563
Loan Funds	6,451	7,121	7,121	7,121	7,121
MI, Deferred Tax & other Liabilities	642	689	689	689	689
Total Equity and Liabilities	22,210	24,629	27,349	30,686	34,829
Application of Funds					
Gross Block	15,571	18,071	21,071	24,071	27,071
Less: Depreciation	4,530	5,614	7,047	8,612	10,236
Net Block	11,041	12,457	14,024	15,459	16,835
CWIP	1,224	757	757	757	757
Other Non-current Assets	209	314	314	314	314
Other Current Assets	347.2	263.0	263.0	263.0	263.0
Net Fixed Assets	12,822	13,790	15,357	16,792	18,168
Investments	105	105	105	105	105
Debtors	4,086	4,327	5,214	5,882	6,727
Inventories	2,776	3,710	4,375	4,835	5,529
Cash & Bank Balance	383	496	332	1,106	2,333
Loans & Advances & other CA	217	198	198	198	198
Total Current Assets	7,945	9,144	10,533	12,434	15,201
Current Liabilities	7,377	8,152	8,572	9,058	9,609
Provisions	193	55	55	55	55
Net Current Assets	568	992	1,961	3,376	5,593
Total Assets	22,210	24,629	27,349	30,686	34,829

Cash Flow Statement Consolidated (INR Mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
PBT	1,784	2,067	3,026	3,882	4,818
Cash From Operating Activities	2,560	2,131	2,599	3,446	4,704
Tax	(429)	(556)	(757)	(1,009)	(1,204)
Net Cash From Operations	2,131	2,599	3,446	4,704	5,167
Capex	(2,668)	(2,420)	(3,000)	(3,000)	(3,000)
Cash From Investing	(2,553)	(2,409)	(3,000)	(3,000)	(3,000)
Borrowings	6,451	7,121	7,121	7,121	7,121
Finance cost paid	510	615	635	666	677
Div. (incl. buyback & taxes)	0	(105)	(159)	(185)	(212)
Cash From Financing	465	(62)	(645)	(930)	(940)
Net Increase/ Decrease in Cash	43	128	-199	774	1,227
Cash at the beginning of the year	365	383	530	332	1,106
Cash at the end of the year	383	530	332	1,106	2,333

Key Ratios					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Per share (INR)					
EPS	25.3	27.7	42.9	54.3	68.3
BVPS	199	223	267	321	389
Valuation (x)					
P/E	38.3	34.9	22.6	17.8	14.2
P/BV	4.9	4.3	3.6	3.0	2.5
Return ratio (%)					
EBIDTA Margin	16.77%	16.25%	17.50%	18.40%	18.75%
PAT Margin	6.56%	6.39%	8.02%	8.89%	9.79%
ROE - Pre tax	12.74%	12.84%	16.07%	16.93%	17.57%
ROCE - Pre tax	9.63%	10.17%	12.69%	14.14%	15.09%
Leverage Ratio (%)					
Total D/E	0.62	0.60	0.50	0.42	0.35
Turnover Ratios					
Asset Turnover (x)	2.5	2.6	2.7	2.6	2.4
Inventory Days	51	58	57	55	55
Receivable Days	75	67	67	66	66
Payable days	45	43	43	43	43

Source: Arihant Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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