

Strong order book visibility

CMP: INR 867

Rating: Buy

Target Price: INR 1,092

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')	61

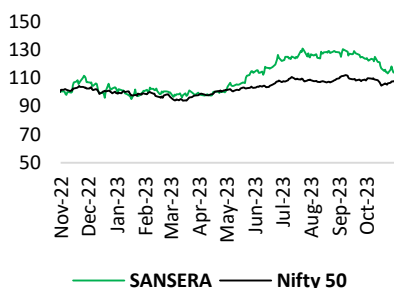
Shareholding Pattern %

(As on Sep, 2023)

Promoters	35.23
DII's	25.11
FII's	29.00
Others	10.66

Stock Performance (%)	1m	3m	12m
Sansera	-7.9	-8.56	13.9
Nifty	-1.7	-0.99	7.3

Sansera Vs Nifty



Sansera Engineering Ltd reported slightly weaker set of Numbers due to High base in Q2FY23; Contraction in margin QoQ led by higher other expenses (+10% QoQ/ +13% YoY). Consolidated revenue from operations grew by +9% YoY/4.9% QoQ stood at INR 6829 mn in Q2FY24 below our estimate of INR7,004 mn. The revenue growth led by the international business has experienced an impressive growth of 40% YoY. EBITDA for the quarter stood at INR 1177.6 Mn against our estimate of INR 1,226 Mn registered growth of 9% YoY/ 2.98% QoQ. The company's EBITDA margin is flat YOY to 17% due to High base in Q2FY23 and 17.32% in the Q1FY24 (Our estimate of Margin 17.5%). Net profit for the quarter grew by 1% YoY/5.25% QoQ of INR 475 mn in Q2FY24 below our estimate of INR 567 Mn. Order inflow of INR. 6 Bn during H1FY24 across sectors: Auto-ICE: 62.8%, Auto Tech Agnostic & xEV: 26.5% and Non auto: 10.7%; Aerospace & defence contribute a meaningful component in it.

Investment Rationale

Strong traction in Aerospace & Defence: Aerospace manufacturing includes seating, aero structure, door assembly, lightweight, cargo handling, engine, and landing gear parts. This sector contributed 4.6% in Q2FY24. Recognizing significant opportunities in the aerospace segment, particularly with numerous Indian carriers placing substantial and sizable new orders. Although the sector is in its early stages, the potential is expansive.

Robust order from xEV and Tech Agnostic: Sansera's Auto-Tech Agnostic, xEV, and non-auto segments have outpaced Auto-ICE growth. Notably, orders from xEV and Tech Agnostic Products comprised 35% of incremental orders. H1FY24 saw an impressive 44.8% YoY growth. Despite a dip to 4.6% in xEV contribution, the company, backed by a 7.3% revenue share from Auto-Tech Agnostic components, remains optimistic about EV business, expecting meaningful contributions from new orders by American multinational automotive EV customers in upcoming quarters.

Strategic Expansion Propelled by a Favorable Demand Environment: Anticipating a surge in domestic demand, company observe optimistic OEM production ramp-ups. Internationally, we've expanded significantly due to favorable demand, resulting in increased SKUs. To support this growth, they have enhanced the organizational structure, reflected in a 4% YoY growth in Q2FY24 and 11.1% YoY in H1 FY24, primarily propelled by PV and HEV component growth.

Outlook and valuation

Sansera Engineering reported strong Q2FY24 results, anticipating a more robust H2FY24 performance. Expecting benefits from export recovery, aerospace growth, and positive PV segment performance. Key client, Bajaj Auto, shows export recovery. Order book valued at INR 19.3 bn includes technology-agnostic, EV, and non-automotive projects. INR 3000 mn investment planned for non-automotive and non-ICE initiatives. Strong presence in the non-automotive sector with a healthy order book and promising defense sector opportunities. Anticipates 50% YoY growth in the next three years, focusing on expanding customer base and product portfolio despite potential temporary impacts.

We value the stock on a P/E (x) multiple of 16x to its FY26E earnings of INR 68.3 EPS to arrive target price of INR 1,092 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%	34.3
FY23	23,418	3,805	1,497	27.7	16.2%	10.2%	31.2
FY24E	28,017	4,903	2,248	42.9	17.5%	12.69%	20.2
FY25E	32,085	5,904	2,851	54.3	18.4%	14.14%	16.0
FY26E	36,694	6,880	3,592	68.3	18.8%	15.09%	12.7

Source: Arihant Research, Company Filings

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Exhibit 2 : Q2FY24 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INRm)	Q2FY24	Q1FY24	Q2FY23	QoQ%	YoY%
Net Sales	6,929	6,601	6,337	5.0%	9.3%
Cost of material consumed	3,164	3,084	3,064	2.6%	3.3%
Changes in inventories	(165)	(190)	(155)	-13.1%	6.3%
COGS	3,000	2,894	3,940	3.6%	-23.9%
GP	3,929	3,706	2,397	6.0%	63.9%
Employees benefits expense	934	910	768	2.7%	21.7%
Other expenditure	1,817	1,653	568	10.0%	219.9%
EBITDA	1,178	1,144	1,062	3.0%	10.9%
Depreciation	371	349	315	6.3%	17.5%
EBIT	807	795	746	1.5%	8.1%
Other Income	10	4	25	131.2%	-60.3%
Finance costs	180	189	144	-4.9%	25.2%
PBT	637	610	627	4.4%	1.5%
Current Tax	139	141	217	-1.5%	-35.9%
Deferred tax	22	17	(59)	33.4%	-137.9%
Tax	162	158	159	2.2%	1.8%
Adjusted PAT	475	452	469	5.2%	1.4%
Non-controlling interests	5.7	4.5	9.4	24.9%	-39.5%
Reported PAT	469.7	447.2	459.4	5.0%	2.3%
EPS	8.8	8.4	8.7	4.5%	1.0%
Margins	Q2FY24	Q1FY24	Q2FY23	QoQ%	YoY%
Gross margins	43.3%	43.8%	62.2%	-56Bps	-1888Bps
EBITDA	17.00%	17.32%	16.75%	-33Bps	24Bps
Adjusted PAT	6.9%	6.8%	7.4%	2Bps	-54Bps
Tax Rate	25.4%	25.9%	25.3%	-57Bps	6Bps
Effective Tax Rate	25.4%	25.9%	25.3%	-57Bps	6Bps
Cost Analysis					
RM/Net Sales	45.67%	46.72%	48.35%	-105Bps	-268Bps
Other Exp/Net Sales	26.23%	25.04%	8.96%	119Bps	1727Bps
Staff cost/Net sales	13.48%	13.79%	12.11%	-30Bps	137Bps

Source: Arihant Research, Company Filings

Exhibit 3 : Revenue Mix

Sales mix (%)	Q2FY24	Q1FY24	Q2FY23
Auto – ICE	75.60%	76.40%	80.10%
Auto-Tech Agnostic	7.30%	6.60%	7.40%
xEV	4.60%	5.30%	2.90%
Non-Auto	12.50%	11.70%	9.60%
By Geographies	Q2FY24	Q1FY24	Q2FY23
India	71.30%	68.40%	77.40%
Europe	16.30%	19.50%	16.10%
USA	9.50%	9.00%	3.50%
Other Foreign Countries	2.90%	3.10%	3.00%
International	28.70%	31.60%	22.60%
Exports from India	23.10%	24.40%	18.00%
Sweden Sales	5.60%	6.40%	4.60%
Total	100.00%	100.00%	100.00%

Source: Arihant Research, Company Filings

Conference Call Highlights

In the 2w segment, the company is experiencing growth due to industry expansion and premiumization. They are actively participating in premium motorcycle programs with partners like Royal Enfield, Bajaj Triumph, Hero-Harley, and BMW Motorrad. The company is also preferred partners for future programs.

- **Gross Margin:** The company faced a marginal setback, particularly in its higher gross margin business. This resulted in an impact of approximately 30-40bps on both gross margins and EBITDA margins.

- **Margin:** at 17% in Q2FY24, manpower costs have increased due to the expansion efforts, which include adding numerous mid-management level employees to enhance capabilities. These costs have also impacted other expenses, particularly in the context of contract labor expenses. However, they anticipate these expenses to normalize in the coming quarters as operations stabilize and investments in human resources yield results.

- **Commodity:** Over the past 2.5 years, the company has seen raw material costs rise by over 60%, resulting in a 2.5% to 2.75% negative impact on the margins. As commodity prices cool down and decrease, they expect a positive impact on margins due to the same numerator-denominator effect.

- **EV:** A significant number of orders in the XUV segment have been received from both domestic and international electric vehicle manufacturers. Production for these orders is scheduled for Q3 and Q4. While there has been a slowdown in acceptance in North America, there is a renewed focus on the ICE platform. The company is strategically repositioning to take advantage of these opportunities, with plans to add more products in the XUV segment and participate in new programs to secure additional orders.

- **CAPEX:** The CapEx for the year will be in the range INR 2500-3000 mn, with the majority of this allocation directed towards non-auto and non-ICE categories. This investment is crucial to fulfill the growing order book. The company is at forged and machined components would be 1.5x. So, in aerospace, it would be slightly better than 2x. This would not include the addition of new plants.

- **2W:** In this segment saw an 11% decline, (Margin 11% for the H1FY24) primarily attributed to the exit from the EV 2W program for certain component. The company is committed to enhancing the business performance and are actively pursuing meaningful contributions with major players like BMW, DUCATI, and PIAGGIO.

- **PV:** In the PV components sector, they achieved the highest-ever quarterly sales, driven by strong performance from major customers like Tata Motors and Maruti.

- **3w:** The 3w segment has grown, it contributes less to the revenue. Overall, the company is confident in strong growth in the Auto-ICE segment this year.

- **Strong international sales,** especially in the US, are driving growth. Despite challenges in the previous year's second quarter, the company has seen a steady recovery. In Q2 international sales align with recent performance. Marginal impacts include the UAW strike in the US and slightly lower aerospace business uptake. However, there has been a substantial 200bps improvement in gross margins due to increased exports and stabilized material costs.

- **NEW Plant:** A new machining facility is under development at Sansera Plant 11, Bidadi. The company is also expanding forging line, with plans to add a fourth press in the 4th Quarter. Construction is progressing rapidly in a fast-track mode, and they anticipate that the building will be ready by the end of this calendar year. This expansion signifies the commitment to enhancing the manufacturing capabilities.

- **Order book:** The order peak is expected in 2-3 years, contingent on domestic and international factors, with an annual revenue of INR 19 bn. The order book is robust, featuring 464 Letters of Intent (LOIs) and Purchase Orders from 84 customers in the automotive sector and 49 customers in the non-automotive sector. There are no replacement orders. Despite a 28% impact due to a one-month facility closure in Sweden, the domestic sector is performing well, while export customers in Europe are facing challenges. Q3 and Q4 are anticipated to bring 31-32% of revenue from international sources.

- **Aerospace:** In the aerospace sector, revenue reached INR 130 mn, slightly below the initial target of INR 140 million due to a 16% impact caused by a delay in cargo conversion. The program is set to restart in Q4FY24, possibly reducing the original estimated impact from 50% to 40%. Despite this, the company has a healthy order book with numerous RFQs and promising opportunities in the defense sector. There's strong growth potential in the next three years, with a potential 50% YoY increase. While there may be one or two quarters with temporary impacts, the focus is on expanding the customer base and product portfolio.

- **Premiumization:** In order to enhance the performance and quality of the engines, we have incorporated a 400-500cc integral component that connects the engine to the gear shifter. This innovation significantly elevates the overall product, configuration, and supply of aluminum for the suspension and chassis, ultimately resulting in a superior vehicle. This enhancement is available across various models, although it may not be present in every model. The cost for this upgrade falls within the range of 5000-9000 per vehicle.

Story in charts (INR in Mn)

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

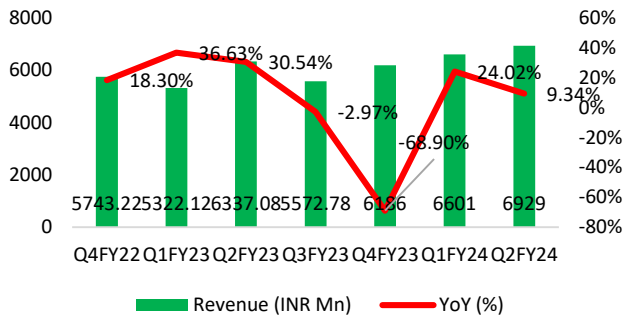


Exhibit 5: Margins to improve in coming 2 years led by better export

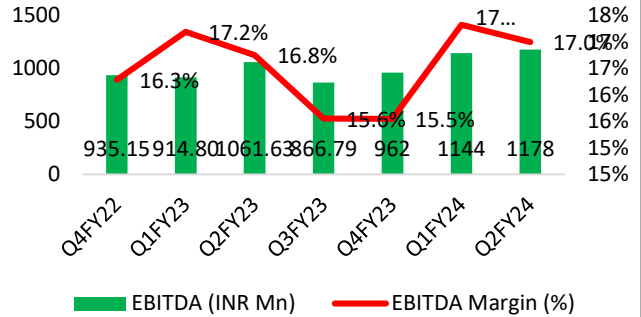


Exhibit 6: Strong profit growth to be seen on back of strong order book

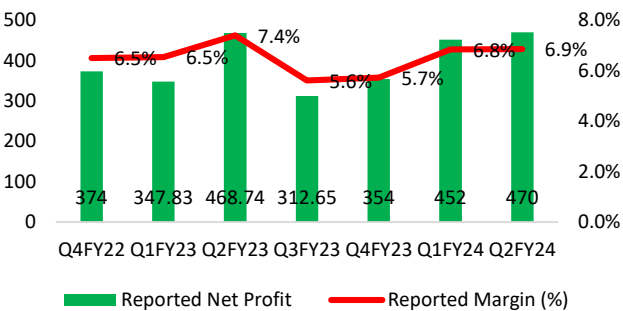


Exhibit 6: Visible growth in the revenue contribution from xEV segment

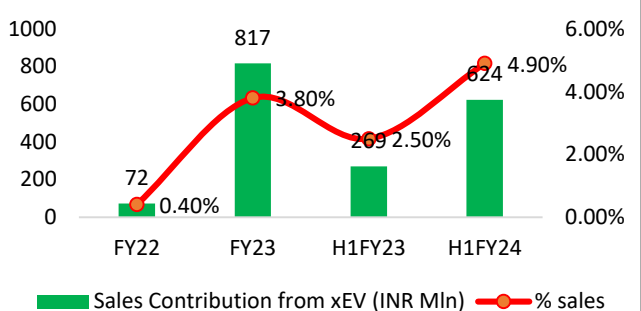


Exhibit 7: Orderbook (peak annual revenues for new business); 464 LOIs/Purchase Orders from 84 customers in the auto and 49 customers in the non-auto sector

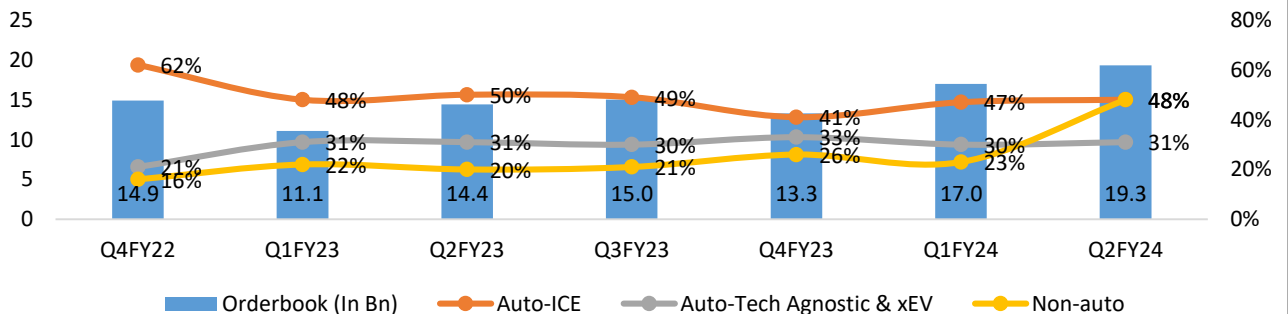


Exhibit 8: Improving earning trends

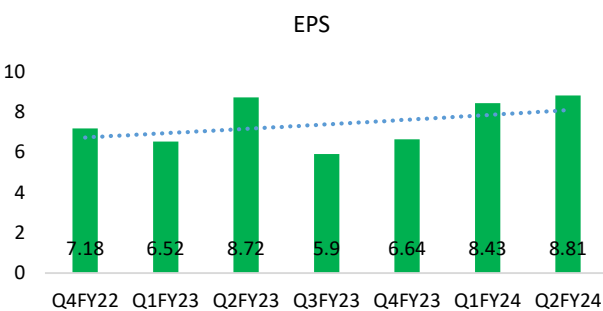
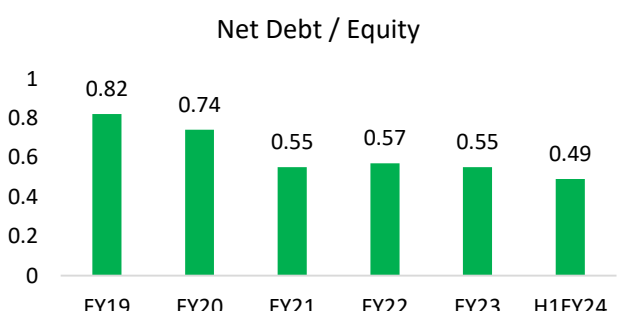


Exhibit 9: Continue improvement in the Net Debt/Equity



Source: Company, Arianth 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%

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	1227
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

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 interest	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

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	34.3	31.3	20.2	16.0	12.7
P/BV	4.4	3.9	3.2	2.7	2.2
Return ratio (%)					
EBITDA 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: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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