

18 September 2023

India | Equity Research | Company Update

Sansera Engineering

Auto Ancillaries

Targeting 20% RoCE amidst executing growth capex

We interacted with the management of Sansera Engineering (SEL) to get mid-year update on its business execution and outlook ahead. Following are the key takeaways: 1) Revenue is on course to meet the target of ~40% growth in exports in FY24, including ~50% growth in aerospace segment; 2) supplies to Triumph and Harley for the newly-launched indigenised models would add to 2W segment revenue growth along with continued premiumisation of overall 2W market; 3) EBITDAM is on track to be at 17-18% in FY24 and inch up potentially higher in FY25 driven by the rising mix of exports/aerospace; 4) despite capex of INR 2.8-3bn p.a., SEL is confident of crossing ~20% pre-tax RoCE by FY25. We retain **BUY** on SEL with an unchanged target price of INR 1,133, implying 20x FY25E earnings.

Domestic 2W space to grow ~20% for SEL in FY24

As against the likely 2W industry growth of 10% in FY24, SEL is currently looking forward to ~20% revenue growth in FY24 from its domestic ICE 2W component space. Execution of the newly-launched models with INR 8k-10k kit value per unit like Triumph Speed 400, Harley X440, TVS Apache RTR310, would drive the growth other than improving mix within the sub-300cc models. On 2W EV front, recovery is happening in scale post a sudden decline in Jun-Jul'23 and SEL is expecting monthly EV market to return to its highs of April-May during festive season itself. For SEL, value addition per e-2W is more than 1.5x to that of average ICE model kit value.

Exports and aerospace growth on track as guided

As guided at FY23 end, SEL is on course to achieve FY24 target of ~40% revenue growth in exports (~INR 6.5bn+ exports), which would include aerospace segment revenue moving from ~INR 900mn in FY23 to ~INR 1.4bn in FY24. This elevated growth is on the back of recovery in semiconductor supplies in target markets other than execution of fresh orders. The 4,000T new press (INR 300mn capex), flexible between aluminium and steel forging would get operational from mid-FY25 and would help SEL take orders for larger-sized products. SEL is planning to invest in US warehousing and machining facility with capex of sub-INR 1bn H2FY24 onwards, with visibility of ramping up of orderbook from the likes of Cummins and an EV car maker.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	19,890	23,383	28,367	33,597
EBITDA	3,336	3,770	5,166	6,311
EBITDA %	16.8	16.1	18.2	18.8
Net Profit	1,305	1,462	2,275	2,938
EPS (INR)	25.4	28.5	44.3	57.2
EPS % Chg YoY	20.8	12.1	55.6	29.1
P/E (x)	37.4	33.3	21.4	16.6
EV/EBITDA (x)	16.7	14.9	10.9	8.9
RoCE (%)	11.0	10.9	13.8	15.4
RoE (%)	13.7	13.3	17.9	19.5

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Market Data

Market Cap (INR)	51bn
Market Cap (USD)	609mn
Bloomberg Code	SANSERA IN
Reuters Code	SASE BO
52-week Range (INR)	998 /673
Free Float (%)	51.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	11.3	33.2	31.1
Relative to Sensex	7.3	17.7	13.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

02-08-2023: [Q1FY24 results review](#)

12-06-2023: [Company update](#)

EBITDAM on course to be in line with expectation at ~17-18% in FY24 with capex at ~INR 2.8-3bn

With operating leverage being in favour and input commodity costs being under control, SEL is confident of delivering ~17-18% EBITDAM in FY24. SEL is investing a part of its margin in new-gen products in the non-auto domain too on an experimental basis other than having invested in the radar technology business to tap ADAS system led revenue going ahead. Thus SEL, we believe, is ploughing back a part of its potential margin for diversification of portfolio beyond ICE products. SEL is targeting to maintain capex levels of INR 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. Post the 4,000T press gets installed, as against hardly INR 100mn revenue from Cummins p.a., it can move up to INR 2bn p.a., driving profitable growth for SEL.

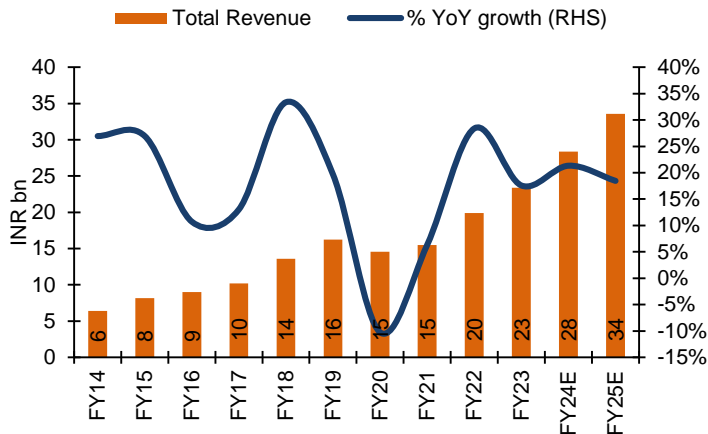
Professional management driving the business with specific responsibilities for promoters

SEL, post the complete exit of private equity from it, would continue to run the same way it has been doing since listing, with specific responsibilities of key promoters in the business. With promoters having decided long back while starting SEL, not to involve next generation family members in the business beyond merit. Thus, at current juncture, outlook towards managing the business professionally by employing responsible senior management remains the same. SEL's long-term vision of achieving USD 1bn revenue and operating consistently above 20% RoCE with manpower of 10,000 people is of utmost priority and thus the promoters do not intend to sell the business in the near future. Any strategic partner who can add value and help SEL grow to the level of USD 1bn revenue faster with better profitability would be welcome and we believe that would be a win-win for the existing promoters, senior management of SEL with ESOPs and minority shareholders.

We are building ~20% revenue CAGR and ~18.5% EBITDAM in FY24-25E; RoCE to cross 20% by FY25E

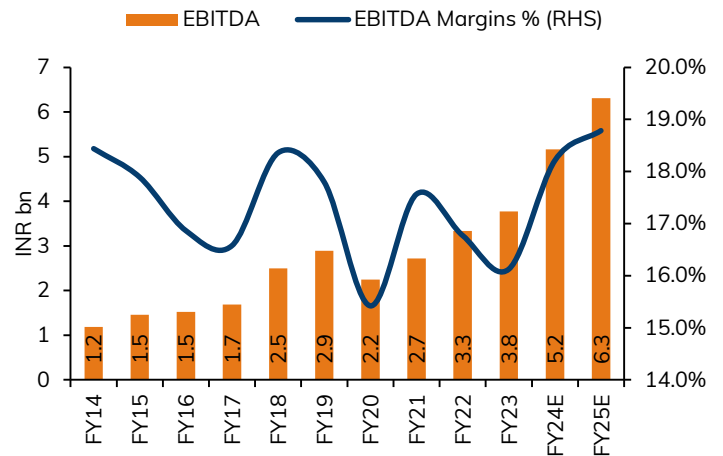
We expect 20% revenue CAGR for SEL to be equally driven by three aspects in the form of domestic 2W volume growth and mix improvement, exports revival including aerospace business expansion and lastly execution of fresh projects. Thus, with better revenue mix and stable input commodity, we expect EBITDM to improve to ~18-19% 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 SEL would continue to be on expansion mode. Thus, with better asset seating and improved profitability, we expect SEL to cross ~20% RoCE by FY25E, despite continuing in expansion mode and do close to INR 3bn p.a. of capex. With non-ICE already at ~22% of revenue, SEL 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, SEL is focusing on creating a much larger non-auto portfolio by using its existing core capabilities. With RoCE of sub ~15%, SEL has rightfully traded below other diversified domestic auto component players like ENDU, SFL, BHFC, MNDA etc. and we believe the ongoing diversification along with execution of profitable growth would be the right catalyst for SEL to become a well regarded quality long term market cap compounding company.

Exhibit 1: We are building ~20% revenue CAGR over FY23-25E



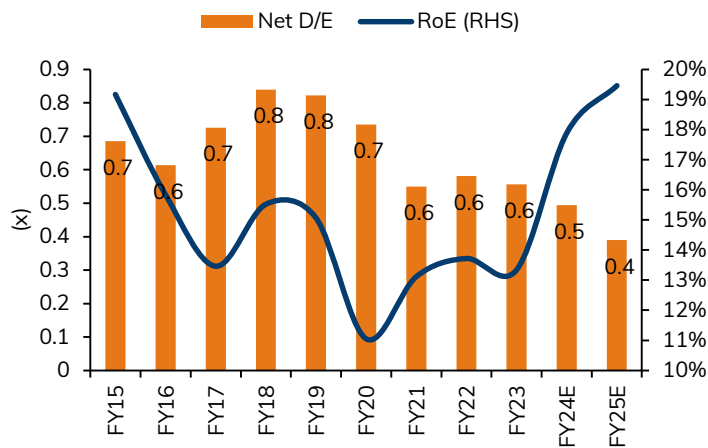
Source: I-Sec research, Company data

Exhibit 2: EBITDAM on course to be ~17-18% in FY24



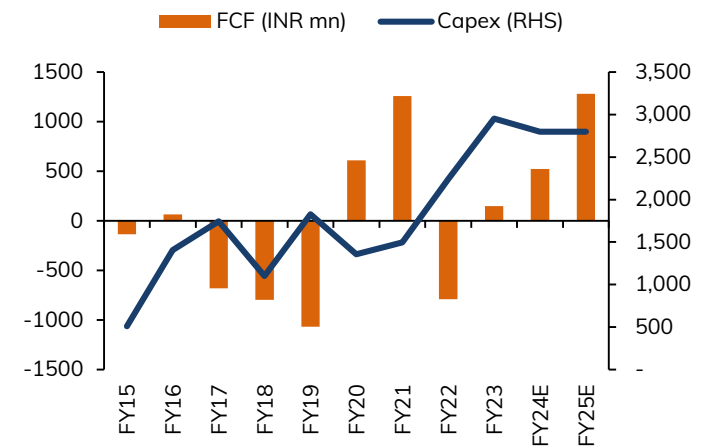
Source: I-Sec research, Company data

Exhibit 3: We expect net debt/equity to go down slightly to 0.4x by FY25E



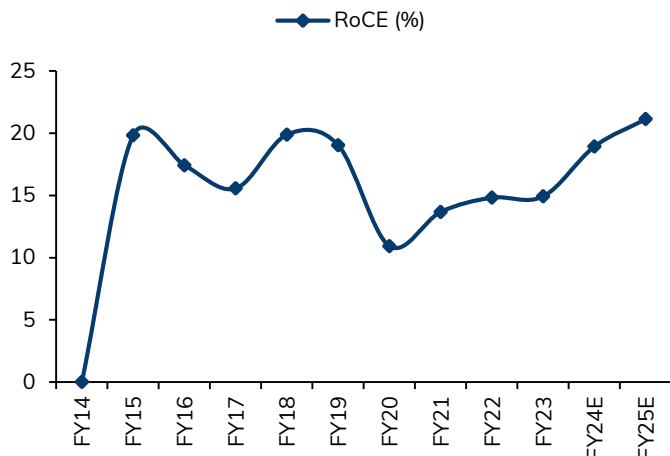
Source: I-Sec research, Company data

Exhibit 4: Controlled capex and rising EBIT leading to higher FCF



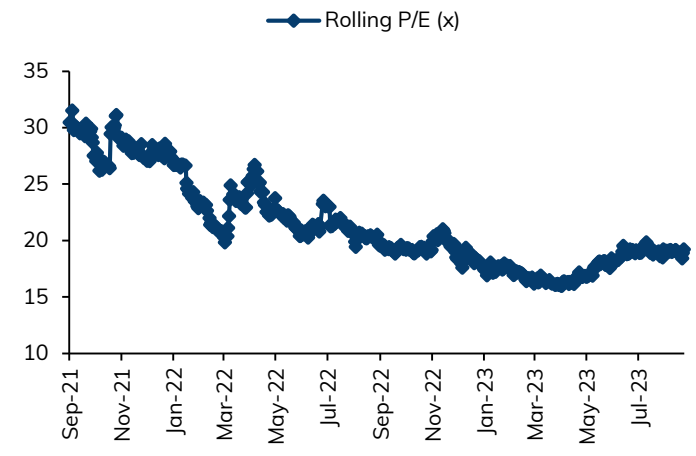
Source: I-Sec research, Company data

Exhibit 5: Despite capex of INR 2.8-3bn p.a., pre-tax RoCE may cross 20% by FY25



Source: I-Sec research, Company data

Exhibit 6: Rolling P/E chart



Source: I-Sec research, Company data

Key risks

- Slower-than-expected growth of domestic 2W market in FY24-FY25.
- Faster-than-expected adoption of e-motorcycles in India.
- Slower-than-expected revival in exports and aerospace revenues in FY24.

Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	35.7	35.7	35.2
Institutional investors	55.2	55.2	54.7
MFs and other	11.5	11.4	17.9
FIs/Banks	5.2	5.5	6.2
FIIIs	38.7	38.3	30.6
Others	8.9	9.1	10.1

Source: Bloomberg, I-Sec research

Exhibit 8: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	19,890	23,383	28,367	33,597
Operating Expenses	4,659	5,451	6,181	7,128
EBITDA	3,336	3,770	5,166	6,311
EBITDA Margin (%)	16.8	16.1	18.2	18.8
Depreciation & Amortization	1,197	1,301	1,606	1,830
EBIT	2,139	2,469	3,559	4,481
Interest expenditure	510	615	611	641
Other Non-operating Income	155	178	196	216
Recurring PBT	1,784	2,032	3,145	4,055
Profit / Loss from Associates	14	21	20	22
Less: Taxes	465	549	849	1,095
PAT	1,319	1,483	2,295	2,960
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,305	1,462	2,275	2,938
Net Income (Adjusted)	1,305	1,462	2,275	2,938

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	8,486	9,831	11,548	14,183
of which cash & cash eqv.	503	616	327	709
Total Current Liabilities & Provisions	3,750	4,078	4,894	5,796
Net Current Assets	4,736	5,753	6,654	8,386
Investments	105	105	105	105
Net Fixed Assets	11,041	12,691	13,885	14,855
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,224	757	757	757
Total Intangible Assets	1,353	1,245	1,245	1,245
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	18,460	20,551	22,646	25,348
Liabilities				
Borrowings	6,451	7,121	7,121	7,121
Deferred Tax Liability	642	689	689	689
Provisions	-	-	-	-
Other Liabilities	1,013	921	921	921
Equity Share Capital	104	106	106	106
Reserves & Surplus	10,130	11,573	13,649	16,329
Total Net Worth	10,234	11,679	13,755	16,434
Minority Interest	119	140	160	182
Total Liabilities	18,460	20,551	22,646	25,348

Source Company data, I-Sec research

Exhibit 11: 5-stage DuPont analysis

(INR mn, year ending March)

	FY22	FY23	FY24E	FY25E
Tax Burden (Adjusted PAT/PBT)	73.1	71.9	72.4	72.4
Interest Burden (PBT/EBIT)	83.4	82.3	88.3	90.5
EBIT Margin (EBIT/Sales)	10.8	10.6	12.5	13.3
Asset Turnover (Sales/Total Assets)	107.8	113.8	125.3	132.5
Financial Leverage (Total Assets/Equity)	180.4	176.0	164.6	154.2
ROE	13.7	13.3	17.9	19.5

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,149	2,523	3,322	4,080
Working Capital Changes	380	510	177	25
Capital Commitments	(3,009)	(2,375)	(2,800)	(2,800)
Free Cashflow	(792)	148	522	1,280
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(3,009)	(2,375)	(2,800)	(2,800)
Issue of Share Capital	250	110	(20)	(22)
Interest Cost	(510)	(615)	(611)	(641)
Inc (Dec) in Borrowings	969	670	-	-
Dividend paid	(103)	(128)	(200)	(258)
Others	106	(71)	20	22
Cash flow from Financing Activities	712	(35)	(811)	(899)
Chg. in Cash & Bank balance	(148)	113	(289)	381
Closing cash & balance	503	616	327	709

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	25.4	28.5	44.3	57.2
Adjusted EPS (Diluted)	25.4	28.5	44.3	57.2
Cash EPS	48.7	53.8	75.5	92.8
Dividend per share (DPS)	2.0	2.5	3.9	5.0
Book Value per share (BV)	199.2	227.3	267.7	319.9
Dividend Payout (%)	7.9	8.8	8.8	8.8
Growth (%)				
Net Sales	28.4	17.6	21.3	18.4
EBITDA	22.6	13.0	37.0	22.2
EPS (INR)	20.8	12.1	55.6	29.1
Valuation Ratios (x)				
P/E	37.4	33.3	21.4	16.6
P/CEPS	19.5	17.6	12.6	10.2
P/BV	4.8	4.2	3.5	3.0
EV / EBITDA	16.7	14.9	10.9	8.9
EV / Sales	2.8	2.4	2.0	1.7
Profitability Ratios				
Gross Profit Margins (%)	40.2	39.4	40.0	40.0
EBITDA Margins (%)	16.8	16.1	18.2	18.8
EBIT Margins (%)	10.8	10.6	12.5	13.3
Net Profit Margins (%)	6.6	6.3	8.0	8.7
RoCE (%)	11.0	10.9	13.8	15.4
RoE (%)	13.7	13.3	17.9	19.5
Dividend Yield (%)	0.2	0.3	0.4	0.5
Operating Ratios				
Fixed Asset Turnover (x)	1.6	1.7	1.9	2.2
Inventory Turnover Days	51	58	58	58
Receivables Days	75	68	68	70
Payables Days	49	46	45	45
Effective Tax Rate (%)	26.1	27.0	27.0	27.0
Net Debt / Equity (x)	0.6	0.5	0.5	0.4
Net Debt / EBITDA (x)	1.8	1.7	1.3	1.0

Source Company data, I-Sec research

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