INITIATING COVERAGE

Sansera Engineering Ltd

Pioneering Precision for Over Four Decades; Robust Order Book

We initiate coverage on Sansera Engineering Ltd (Sansera) with a BUY recommendation and price target of Rs 1,210/share, implying an upside of 26% from the CMP. We expect the company to generate strong operating cash flows driven by (i) Strong product pipeline, (ii) Higher sales mix in Non-Auto ICE components, (iii) Higher exports, (iv) Management's unwavering focus on improving margin trends, and (v) Execution Capabilities. We believe these traits will be value-accretive for the company's bottom line. Moreover, we believe Sansera will continue to source its Capex funding of ~Rs 200-250 Cr annually from its robust internal operating cash flows over FY24-26E. Keeping these factors in view, we recommend a BUY rating on the stock and base our rationale on the following premise:

Strong Order book provides revenue visibility: The company has experienced a significant upswing in its order book, particularly in areas beyond traditional ICE components. As of Sep'23, the company's new orders, with a peak annual revenue rate of Rs 1,930 Cr (58% global content), show a noteworthy shift, with ~52% of the share emanating from non-ICE segments. This comprises 12% from Tech Agnostic Auto, 19% from Electric Vehicles (EV), and 21% from Non-Auto sectors. On the other hand, 48% of the new orders during this period are attributed to ICE components. Notably, the relatively vulnerable 2W-ICE segment, which is facing the highest risk from EV disruption, constitutes only 15% of the total order book.

Growth in Non-Auto products to de-risk the portfolio: The evolution in the composition of the order book indicates the company's strategic move to reduce its reliance on ICE components in the years ahead. Its orderbook comprises peak annual revenues of Rs 121 Cr from the new Aerospace and Defense segments which are expected to contribute over 10% to the company's consolidated revenue. This marks a significant increase from the reported 4% share in H1FY24. Due to a strong order influx from customers like Collins Aerospace, Boeing, Airbus, and HAL among others, the company has established a new Greenfield facility in Bengaluru, and has allocated two-thirds for the Aerospace segment and the remaining one-third for the Defense segment. The facility has been built at a cost of Rs 130 Cr on a 10-acre plot (upto 4.5 acres utilized so far) and has been operational since Q1FY24. Optimal capacity is projected to generate ~Rs 350 Cr in revenues, up from Rs 91 Cr in FY23.

EBITDA/PAT Growth expected at 21%/30% CAGR over FY23-26E: We expect the company to post EBITDA/PAT growth of 21%/30% CAGR over FY23-26E (improved from 19%/23% CAGR over FY20-23) on account of sales mix tilting towards Non-Auto ICE components, fungible production lines, and improved operational efficiency. This gives us confidence that the company's consolidated EBITDA margins will accelerate towards a targeted ~18-19% by FY26E from ~16% in FY23 and its ROE will improve to ~18.5% by FY26E from 13.3% in FY23.

Valuation & Recommendation

In the light of attributes such as a) Higher sales mix in Non-Auto ICE components driven by strong order books, b) Higher exports, c) The management's focus on improving margin trends, d) its capability to generate strong operating cash flows, and e) Capacity expansion plans, we believe the stock is currently trading at a reasonable forward PE multiple of 16x (based on our FY26 EPS estimates). Keeping this in view, **we initiate coverage on the stock with a BUY rating and confidently award a Forward PE multiple of 20x on FY26 EPS to arrive at our TP of Rs 1,210 (Exhibit 17). The TP implies a robust upside of 26% from the CMP**.

Key Financials (Consolidated)

(Rs Cr)	FY23	FY24E	FY25E	FY26E
Net Sales	2,338	2,688	3,179	3,705
EBITDA	377	447	569	671
Net Profit	148	181	252	325
EPS (Rs)	27.74	33.93	47.22	60.70
ROE (%)	13.34%	14.30%	17.14%	18.57%
ROCE (%)	13.51%	14.46%	17.75%	19.96%
P/E Ratio	26.9	28.3	20.3	15.8
P/BV	3.3	3.7	3.2	2.7
EV/ EBITDA	12.46	13.14	10.21	8.45
Debt/Equity (x)	0.72	0.71	0.55	0.41

Source: Company, Axis Research

CMP as of 20th Dec, 2023

CMP (Rs)	960
Upside /Downside (%)	26%
High/Low (Rs)	994/697
Market cap (Cr)	5,105
Avg. daily vol. (6m) Shrs.	1,71,493
No. of shares (Cr)	5.35

Shareholding (%)

	Mar-23	Jun-23	Sep-23
Promoter	35.5	35.2	35.2
FII	38.1	30.3	29.0
MF's/Banks	11.4	17.9	17.8
Others	15.0	16.5	18.0

Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	2,688	3,179	3,705
EBITDA	447	569	671
Net Profit	181	252	325
EPS (Rs)	33.9	47.2	60.7
PER (x)	28.3	20.3	15.8
EV/ EBITDA (x)	13.1	10.2	8.4
P/BV (x)	3.7	3.2	2.7
ROE (%)	14.30%	17.14%	18.57%

YoY Growth in %

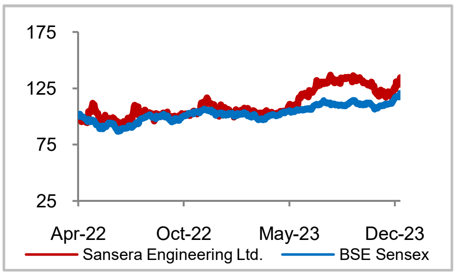
Y/E Dec	FY24E	FY25E	FY26E
Net Sales	15.0%	18.3%	16.6%
EBITDA	18.6%	27.3%	17.9%
Net Profit	22.3%	39.1%	26.8%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA
Sector Avg	46.43

Source: Ace Equity, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities

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Financial Storyin Charts

Exhibit 1: Healthy Revenues Growth Led by Robust Order Book(Rs Cr)

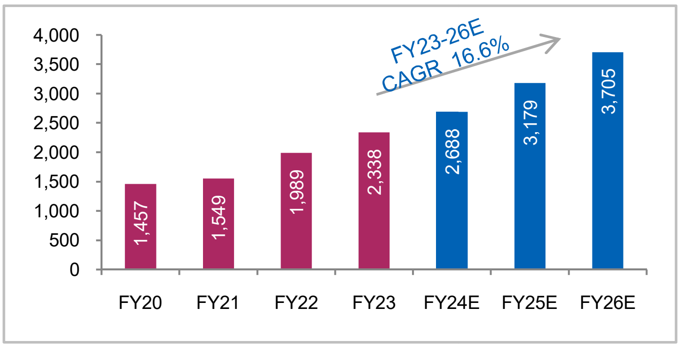
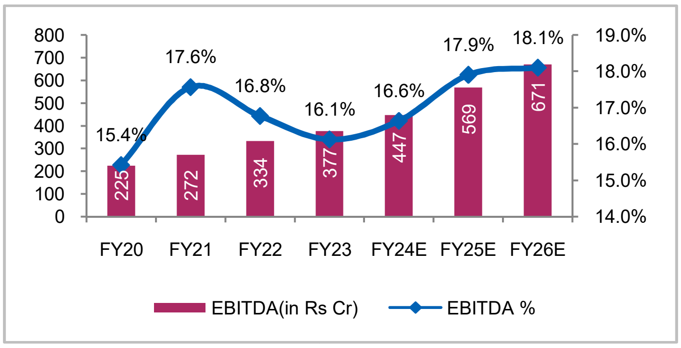


Exhibit 2: Operating Efficiencies toDrive Improved EBITDA Margins



Source: Company, Axis Securities

Exhibit 3: Earnings Growth led by Strong Topline & lower interest expense

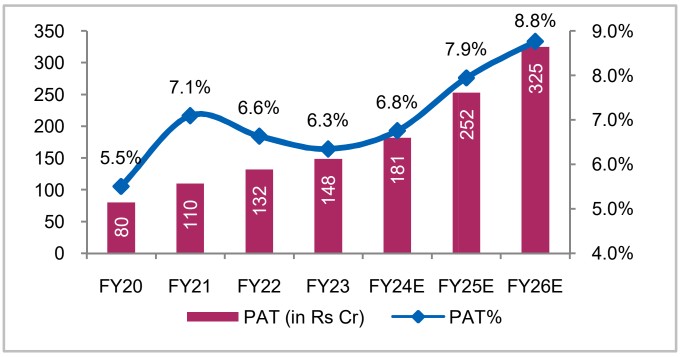
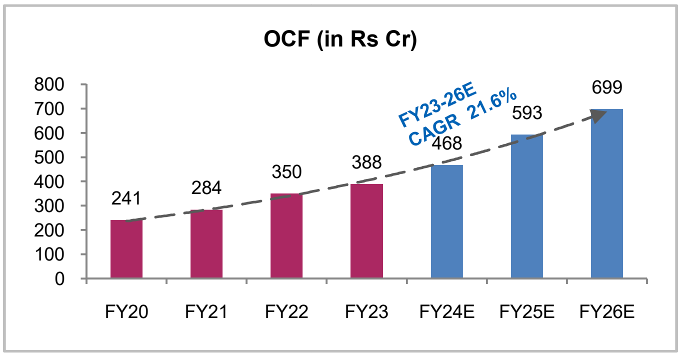


Exhibit 4: Higher EBITDA to Improve Operating Cash Flows



Source: Company, Axis Securities

Exhibit 5:Reducing Net Debt to aid ROE (in Cr)

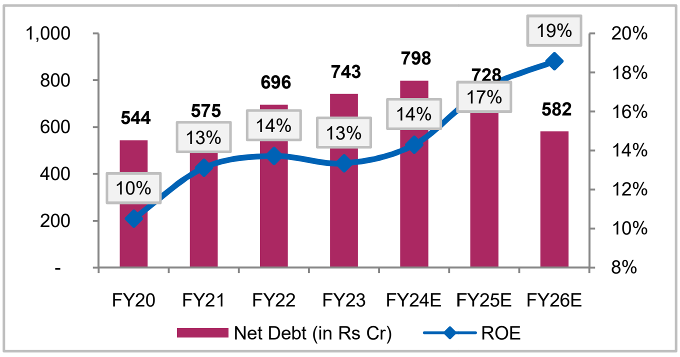
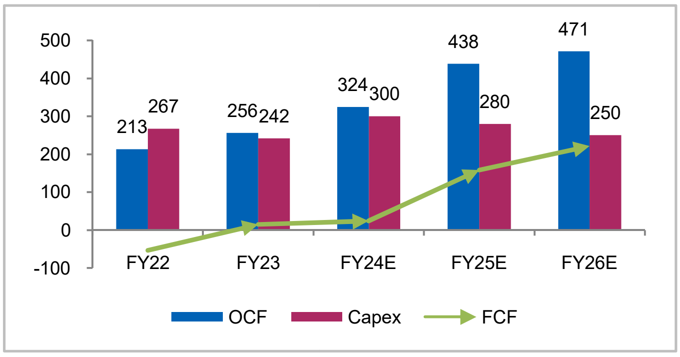


Exhibit 6:FCF to remain positive in FY25 post-Capex expenditure (in Cr)



Source: Company, Axis Securities

Exhibit 7:Order Book: Peak Annual Revenue

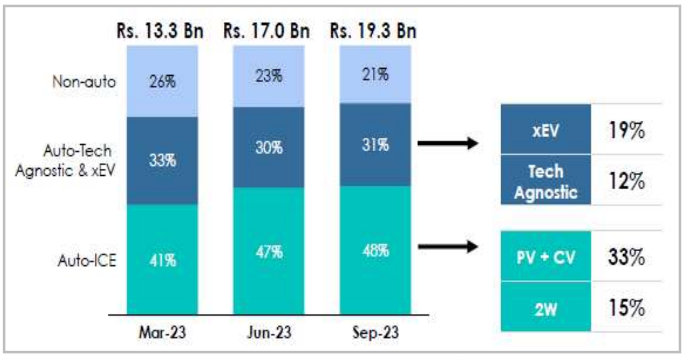
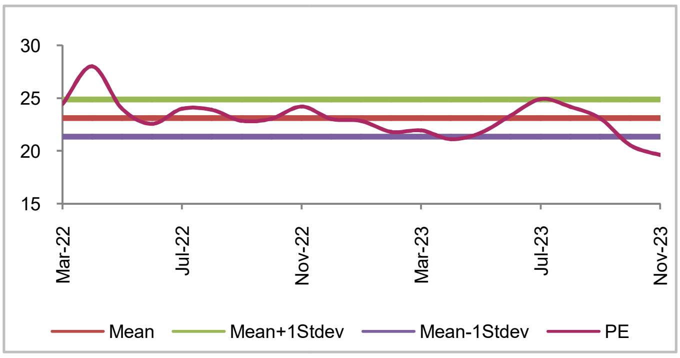


Exhibit 8:1 YR FWD PE Chart



Source: Company, Bloomberg, Axis Securities

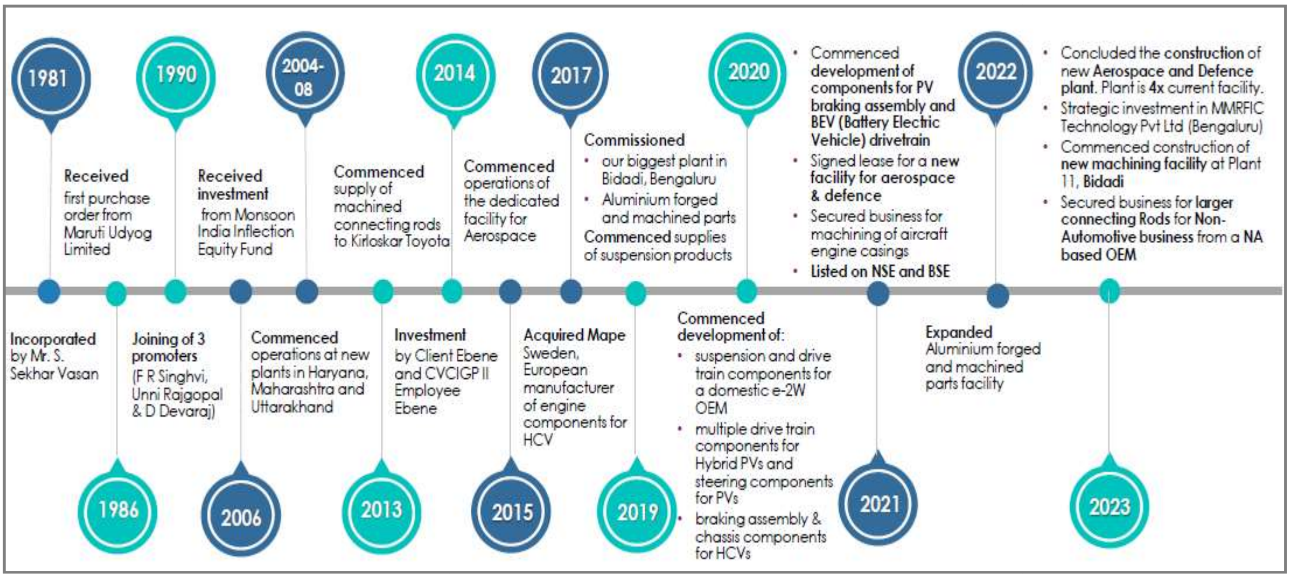
Company Overview

Sansera Engineering(Sansera) incorporated in 1981 and headquartered in Bengaluru, is a technology-driven manufacturer of complex and critical high-precision iron and aluminium components for automotive and non-automotive sectors.It is the largest supplier of Connecting Rods, Rocker Arms and Gear Shifter Forks for the 2W segment and the largest supplier of Connecting Rods and Rocker armsfor LMV in India. Furthermore, the company is among the top ten suppliers of Connecting Rod across the international markets. With a strong presence in the high precision IC engine components, it has been able to extend its design and engineering capabilities to cater to fast-growing areas like EV, Defence, Aerospace etc.It has 17 integrated manufacturing facilities (16 in India and 1 in Sweden)and has evolved organically by supplying premium quality components to Auto ICE, Tech Agnostic, xEV and Non-Auto OEMs in the domestic and global markets.

Over the past decade,the company'srevenue from operations has grown at 16% CAGR to ~Rs 2,346 Cr; EBITDA has grown at 15% CAGR to ~Rs 385 Cr and PAT has grown at 20% CAGR to Rs 148 Cr. In H1FY24, the company's sales mix by the end-user segment in the portfolio was as follows: Auto-ICE:76%, Auto-Tech Agnostic: 7%, xEV: 5% and Non-Auto: 12%. The company envisions achieving 60% of revenue contribution from Auto-ICE, 20% from Auto-Tech Agnostic & xEV, and 20% from Non-Auto segments in the next few years.

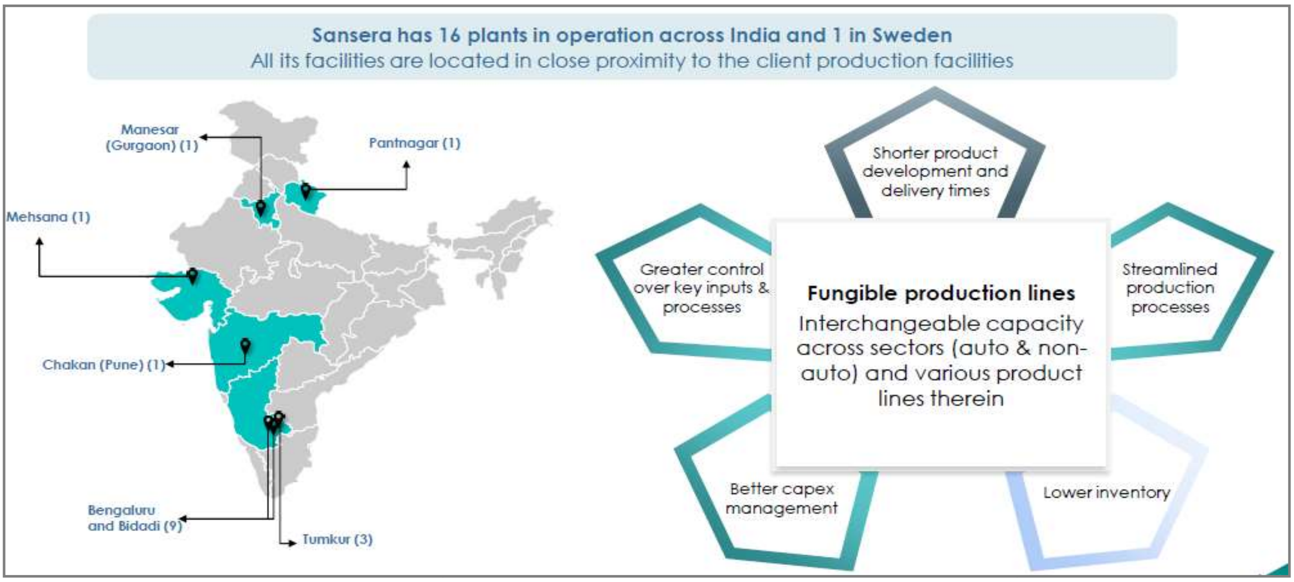
- *Auto- ICE*
- *Auto- Tech Agnostic*
- *Auto – xEV*
- *Non-Auto: Aerospace and Defense.*

Exhibit 9: Journey So Far - Key Milestones



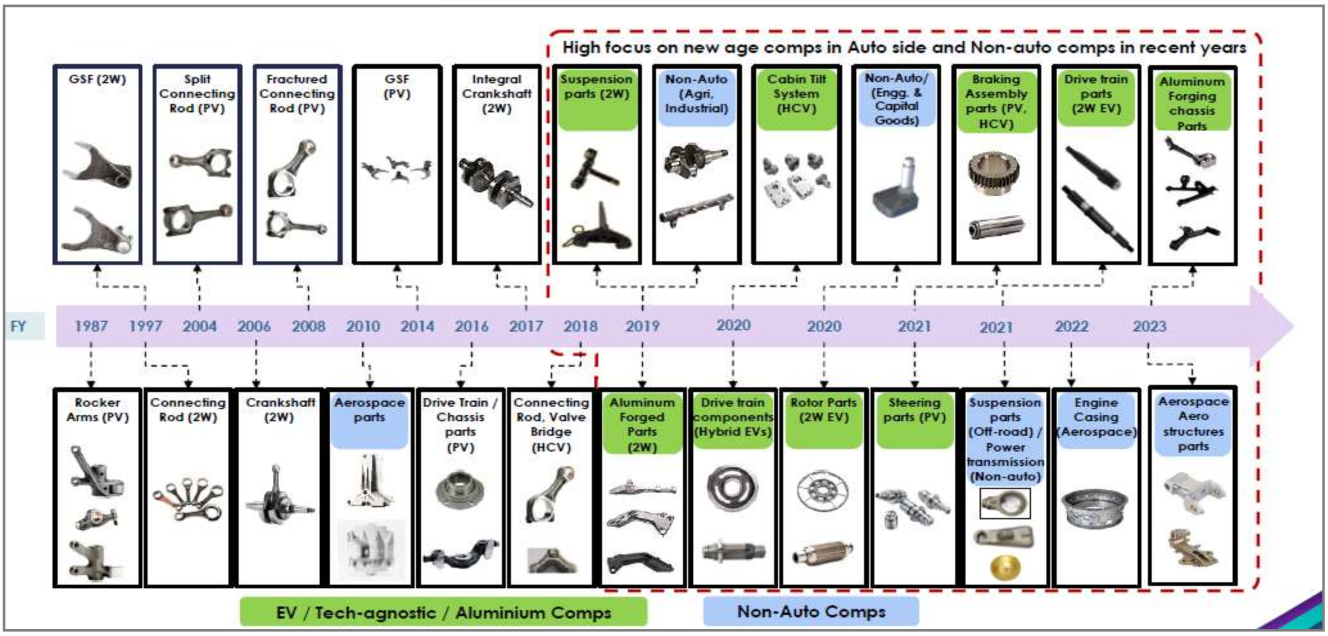
Source: Company, ASL

Exhibit 10: Manufacturing Facilities In India



Source: Company, ASL

Exhibit 11: Product Portfolio Transformation



Source: Company, ASL

Exhibit 12: H1FY24: Geography-Wise Revenue Mix

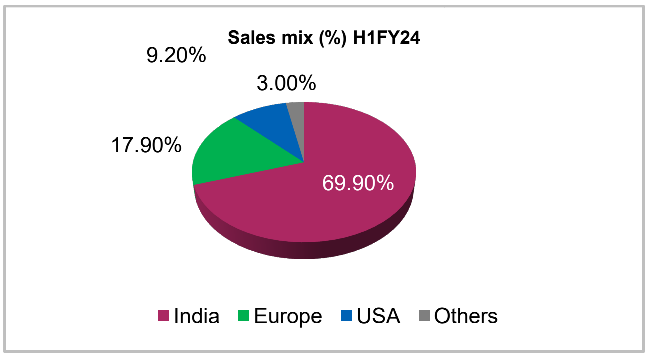
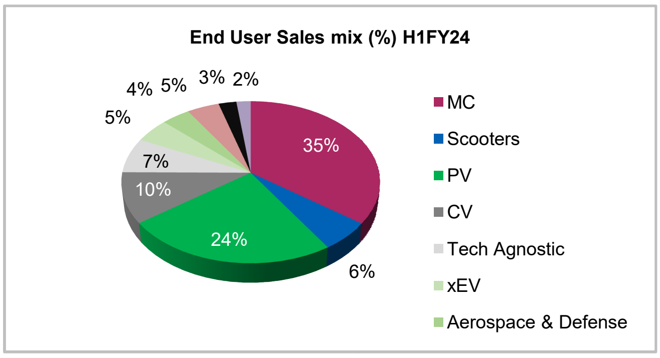


Exhibit 13:H1FY24: End User Segment-Wise Revenue



Source: Company, Axis Securities

Exhibit 14: Sansera Marque Client List

Bajaj Auto Limited	Maruti Suzuki India Ltd.	Boeing
India Yamaha Motor	Tata Motors	Collins Aerospace
HMSI	Honda Cars India Ltd.	Airbus
TVS Motors Ltd	Stellantis N.V.	HAL
Eicher Motor Ltd	Polaris Industries Inc	Cummins (Global)
Triumph Motorcycles	Daimler India CV Private Limited	JCB
Harley Davidson	Toyota Kirloskar Motor Pvt. Ltd.	
Hero Motocorp Ltd.		

Competitive Strengths

Capability to manufacture complex, high-precision components

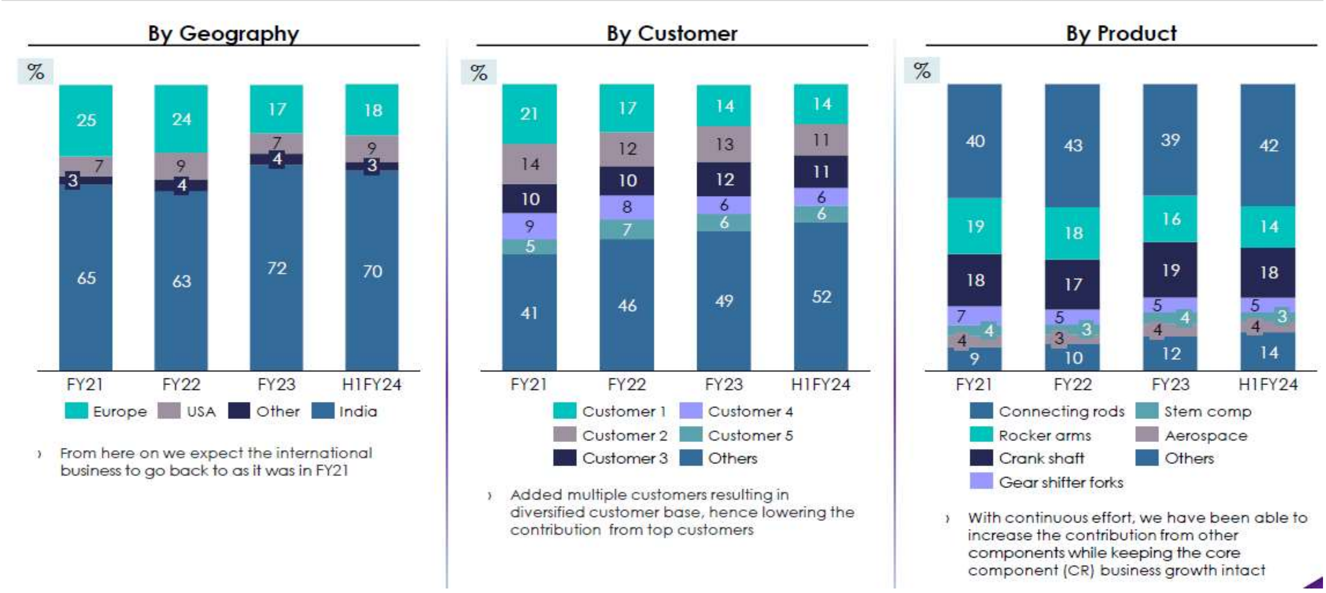
- *17 state of art plants*
- *Fungible Production Lines*
- *In-house Machine Building Capabilities.*
- *New Aerospace and Defense Facility.*

Established in 1981, Sansera Engineering boasts an impressive legacy of ~40 years, specializing in the development of intricate, high-precision critical components. These components find versatile applications in both the automotive sector and diverse non-automotive domains such as Off-Highway vehicles, Agriculture, Oil & Gas, Defence, Aerospace, and Healthcare. Today, the company operates from a network of 17 state-of-the-art plants, strategically located across 16 sites in India and 1 in Sweden. Capitalizing on its robust design and engineering prowess, the company is strategically positioning itself to harness significant business opportunities in emerging sectors: Electric Vehicles (EV), Aerospace, and Defence. The company's foray into cutting-edge sectors underscores its commitment to innovation and aligns seamlessly with the evolving demands of the global market.

Well diversified in terms of product portfolio, customer base, end-segment, and geographical spread
Sansera has a wide portfolio of products across 80+ product families catering to 96 auto and non-auto customers across 27 countries:

- **Customer Base:** The Company has added multiple customers resulting in a diversified customer base, hence lowering the contribution from top customers – from 59% in FY21 to 48% in H1FY24. Within India, it has maintained a relationship with 5 Key PV OEMs accounting for 54% of the market share and has built relationships with 4 out of 5 key OEMs. It is a supplier to all top 2W OEMs. On the global front, the company has relationships with 6 out of the top 10 LCV OEMs; 3 out of the top 10 MHCV OEMs, and 3 major EV OEMs.
- **End Segment:** The Company currently derives ~76% of revenue from Auto-ICE, 12% from Auto-Tech Agnostic & xEV and 12% from Non-Auto Segments. Sansera is making strides towards its vision of expanding revenue from Tech Agnostic & xEV and Non-Auto segments targeting a sales mix of 20% each in the next three years.
- **Geographical spread:** India accounts for 70% of the revenue during H1FY24 with Europe, USA, and other foreign countries contributing 18%, 9%, and 3% of the company's sales revenue in H1FY24, respectively.
- **Product portfolio:** With continuous efforts, Sansera is aggressively expanding the existing product range (mainly comprising of Connecting Rods, Crankshaft, and Gear shifters) into fast-growing and trending segments of EV & Tech-Agnostic (Aluminium forged parts, suspension parts, braking assembly, drive train components etc) and Defense & Aerospace (engine casing and aero structures parts).

Exhibit 15A: Diverse Revenue Profile



Source: Company, Axis Securities

Robust Design & Engineering Capabilities

Sansera has a track record of developing complex and critical precision-engineered components for the automotive sector over multiple decades. The majority of the products are sold directly to OEMs in finished (forged and machined) condition, resulting in significant value addition. Some examples include

i. Complex-machined PV drivetrain components for hybrid transmission systems;
ii. Aluminium forged and machined components for ICE and electric 2Ws;
iii. Steel forged & precision machined parts for suspension and chassis application for e-2Ws,
iv. Steel forged, machined and assembled side crank for bicycle application and
v. Wide variety of precision parts for applications in the defence sector such as military variant light utility helicopters, anti sub-marine rockets, multi surveillance radar applications etc.

The company is continuously focusing on providing high value-added and technology-driven components to capture shifts in customer preferences as well as evolving regulatory requirements and emission norms.

Excellent Machine building capabilities

In-house machine design capabilities have reduced the dependency on external agencies leading to a shorter development leadtime to meet customer demands. This expertise in building simple machines to complex special purpose machines has helped the company to provide the products at reduced cost with lesser time to market and faster production ramp up. With over 1,050 machines and 183 robots, Sansera's self-sufficiency mitigates equipment obsolescence risks. Cracking machines, Trumpet-form hole machines, Vertical honing machines, Double disc grinding machines, Bolt hole gantry lines are some advanced CNC SPMs produced by the company.The computer numerical control (CNC) special purpose machines (SPM) are built in a separate dedicated facility, which employed 56 personnel as of March H1FY24 and manufactured 1,050+ machines to date.

Exhibit 15B: Diverse Revenue Profile

Source: Company, Axis Securities

Strong Automation capabilities

Automation is the backbone of the industry leading to improved productivity, consistent quality, and operator safety. As per the management, technological advancements in high-volume lineshave increased productivity by 30% coupled with manpower reduction by 75%. Key automation projects implemented in-house include –Pick and place systems, Material handling gantries, Machine tending robots, Automated inspection cells, Assembly automation, and Testing automation. Currently, the company has a team of 523 dedicated engineers supporting automotive, aerospace, machine building, automation,and technical functions.

EnhancingBusiness Agility through Fungible Production Lines

Configurations in the productionline demonstrate adaptability and facilitate smooth interchange of capacity and product mix between automotive and non-automotive sectors. This addresses the diverse needs of customers. This strategic flexibility goes beyond merely optimizing machine productivity but also contributes to enhanced operational efficiency, effectively minimizing risks in the business model.

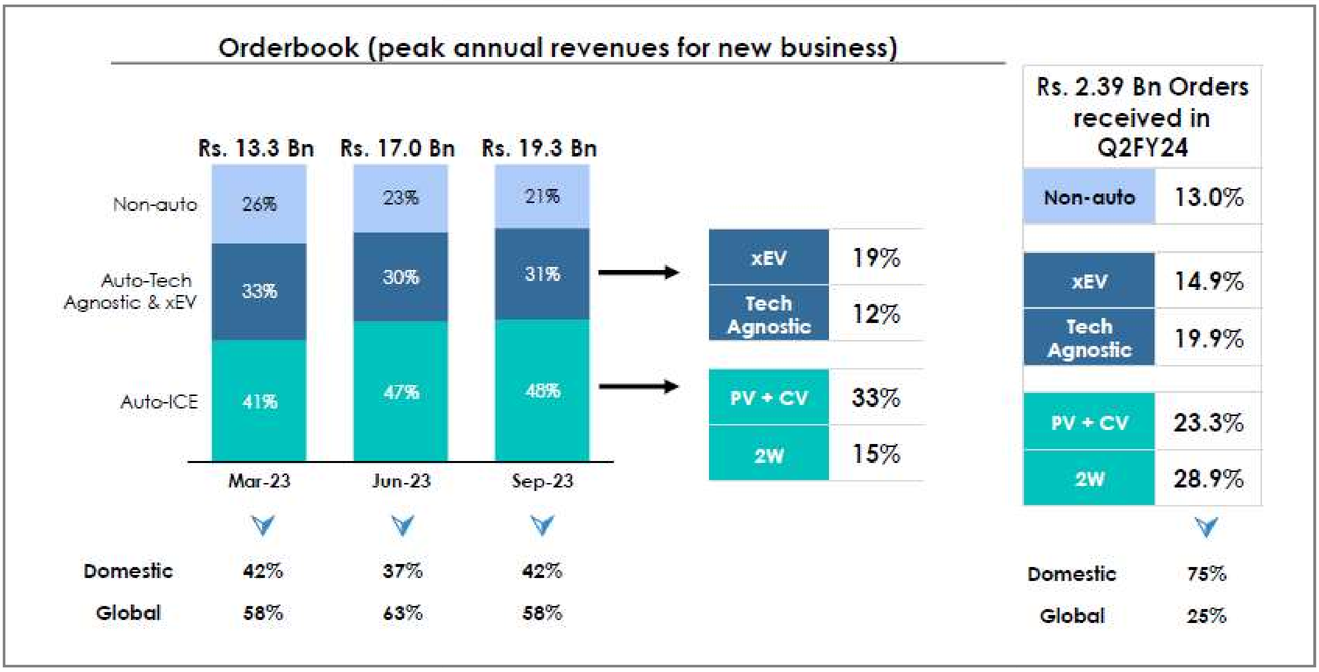
Key Growth Drivers

Strong Order book increasing revenue visibility

The company has experienced a significant upswing in its order book, particularly in areas beyond traditional Internal Combustion Engine (ICE) components. As of Sep'23, the company's new orders, with a peak annual revenue rate of Rs 1,930 Cr (58% global content), show a noteworthy shift, with ~52% of the share emanating from non-ICE segments. This comprises 12% from Tech-agnostic Auto, 19% from Electric Vehicles (EV), and 21% from Non-Auto sectors. In contrast, only 48% of the new orders during this period are attributed to ICE components. Notably, the relatively vulnerable 2W ICE segment, facing the highest risk from EV disruption, constitutes only 15% of the total order book.

- *Strong Order Book*
- *Diverse Product Portfolio.*
- *Investment in MMRFIC*
- *Higher content/ vehicle*

Exhibit 16A: Strong and Diverse Business Pipeline for Future Growth

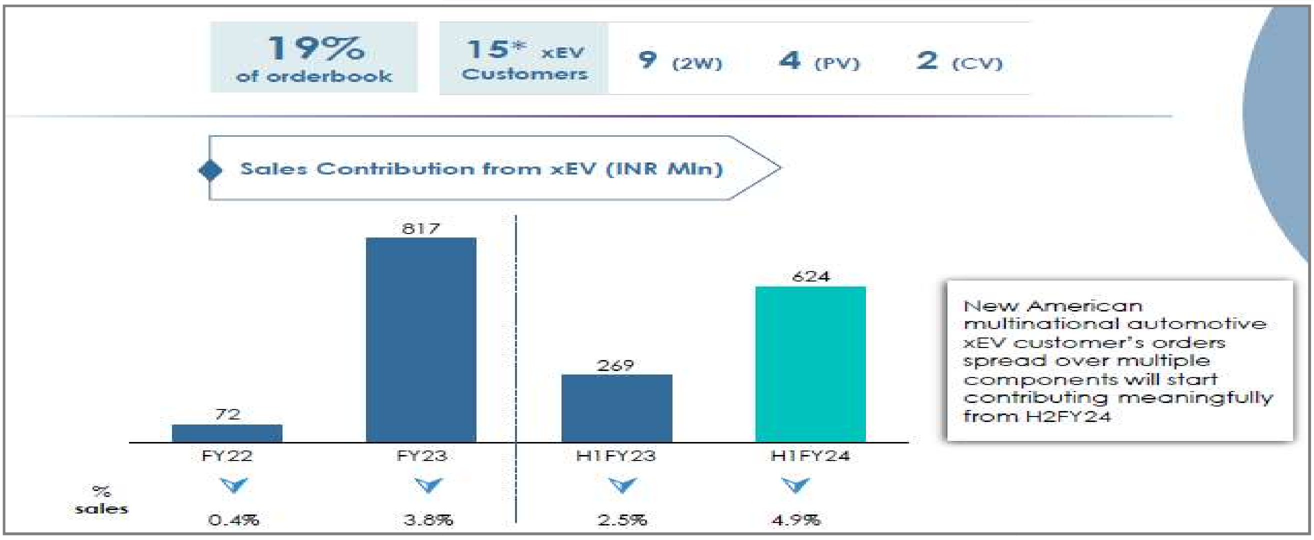


Source: Company, Axis Securities

Auto Agnostic and xEV along with non-auto products to de-risk the portfolio and drive the next phase of growth

The evolution in the composition of the company's order book indicates its strategic move to reduce its reliance on ICE components in the years ahead. The management aims to decrease its dependence on ICE from 76% of the sales mix in H1FY24 to 60% over the next few years. This reduction will be offset by the anticipated increase in the share of Tech Agnostic & xEV Auto components and Non-Auto products to 20% each. Aerospace currently contributes nearly 4% to the company's overall revenue, with a dedicated line for Aerospace and Defence, which is fully booked. Due to a strong order influx, the company has established a new Greenfield facility at Jigani Hobli, Bengaluru, and has allocated two-thirds for Aerospaceand one-third for the Defense segment. The facility, built at a cost of Rs 130 Cr approx on a 10-acre plot (upto 4.5 acres utilized so far), has been operational since the first quarter of FY24. At optimal capacity, the facility is projected to generate approximately Rs 350 Cr in revenues (Rs 91 Cr from the aerospace division in FY23). With an orderbook comprising peak annual revenues of Rs 121 Cr for new aerospace businesses, Aerospace and Defence are expected to contribute over 10% to the consolidated revenue, a significant increase from the 4% reported in H1FY24.

Exhibit 16B: Visible Growth in Revenue Contribution from the xEV segment

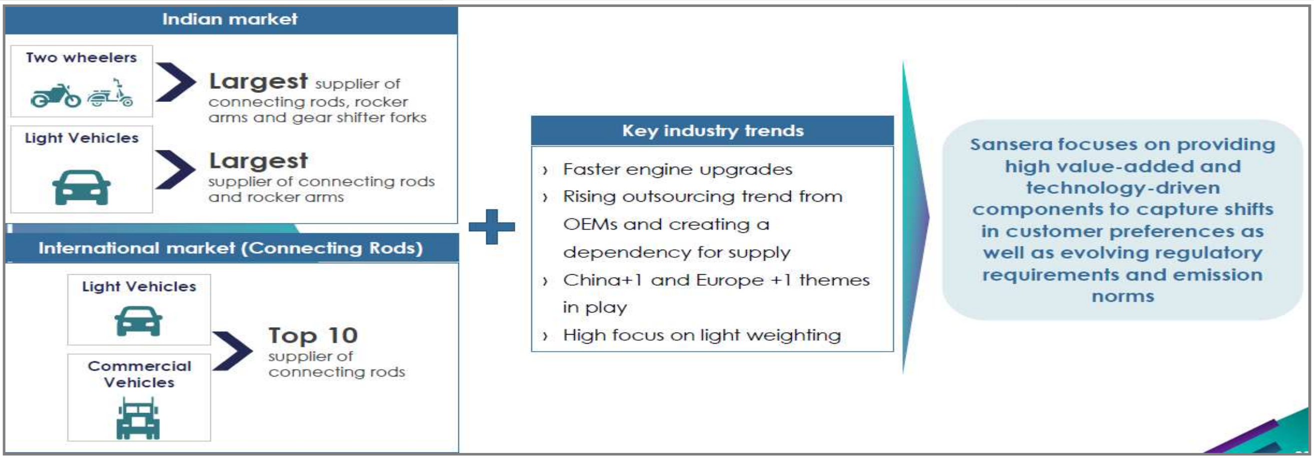


Source: Company, Axis Securities

Robust Core Portfolio to capitalize on product premiumisation and changing regulatory environment

Sansera's adaptability shines through its evolution from a single client/product segment to diverse sectors, including aerospace and electric vehicles (EVs). The company is one of the key suppliers of Connecting Rods, Rocker Arm, and Crankshaft to both Indian as well as global OEMs; and has leveraged its design and engineering capabilities to foray into areas like Aerospace, Defence, and EVs,among others. Furthermore, the company is aggressively launching new Tech Agnostic Auto components like Steering components, Rotors shafts, and Transmission components to reduce its over-dependence on IC Engine components as well as increase its wallet share in the Automobile segment. As the industry leans towards lightweight vehicles, the company anticipates a rise in the share of aluminium forging. In the realm of EVs, Sansera is strategically positioned, having secured orders from multiple OEMs, reflecting its forward-looking approach in the dynamic automotive landscape.

Exhibit 16C: Strengthening Global ICE Market Share in Existing Portfolio



Source: Company, Axis Securities

Investment in new-age technology platforms

The company has entered into a definitive agreement with MMRFIC Technology Pvt. Ltd for a strategic investment of Rs 20 Cr in the form of CCPS (Compulsory Convertible Preference Shares). Sansera has the right to invest and increase its stake from 21% to 51% at a predefined valuation formula. MMRFIC is a Research, Design, and Manufacturing entity based out of Bengaluru, building sub-systems for next-generation radars by leveraging machine learning with AI; and mm-wave Sensors with hybrid beam forming capabilities. The objective of the company behind this strategic investment is to enter into high technology space and have access to a strong R&D and engineering team to address priority market segments viz., Defence, Aerospace, Autonomous Driving Vehicles, and Security.

Key Strategies:

ICE Auto - Consolidating global market share

India accounted for 70% of the revenue in H1FY24 with Europe, USA, and other foreign countries contributing 18%, 9%, and 3% of the company's sales revenue mix respectively. The company has a wide portfolio of products across 80+ product families catering to 96 auto and non-auto customers across 27 countries. The international business has experienced an impressive growth of 40% YoY and the management expects to grow overall international business to 35% of the sales mix (similar to FY21 levels). The management expects to benefit due to the consolidation of sourcing by Auto OEMs and trends of China+1 & Europe+1 to have a favourable impact on the company’s business as seen from strong order inflows. Sansera continues to deepen its relations with existing customers with the addition of new components and a higher share of business.

Focus on Growing Non-Auto Business

Business from the auto segment has grown 32% YoY to Rs 258 Cr in FY23. The company has concluded the construction of a new Aerospace and Defence plant spread across a 140,000 sq foot covered area with 2/3rdof space dedicated to Aerospace and 1/3rd to defence. At optimal capacity, the facility is projected to generate approximately Rs 350 Cr in revenues (Rs 91 Cr from the aerospace division in FY23). Buoyed by a large orderbook comprising peak annual revenues of Rs 121 Cr for new aerospace businesses, Aerospace and Defence are expected to contribute over 10% to the consolidated revenue in the future, a significant increase from 4% as reported in H1FY24.

Outlook & Valuation

Currently, Sansera's orderbook (peak annual revenues for new business) is skewed towards newer segments i.e. xEV & Tech-Agnostic and Non-auto, which has expanded considerably to ~Rs1,930 Cr (of which 58% is Global content). In H1FY24, the company won new orders worth Rs 600 Cr across sectors: Auto ICE: 63%; Tech Agnostic and xEV: 27%; Non-Auto: 10%. This comprises 12% from Auto Tech Agnostic, 19% from Electric Vehicles (EV), and 21% from Non-Auto sectors. In contrast, only 48% of the new orders during this period are attributed to Auto ICE components. This skewed order book composition suggests that the company will be able to reduce its overdependence on ICE (76% of total sales in H1FY24) in the coming years. Notably, the relatively vulnerable 2W ICE segment, facing the highest risk from EV disruption, constitutes only 15% of the total order book.

We expect growth in sales mix towards Non-Auto ICE components, fungible production lines, and improved operational efficiency will drive the company's **EBITDA/PATat 21%/30% CAGR over FY23-26E** (improved from 19%/23% CAGR over FY20-23). This gives us confidence that the company's consolidated EBITDA margins will accelerate towards a targeted ~18-19% by FY26E from ~16% in FY23 and ROE will improve to ~18.5% by FY26E from 13.3% in FY23.

Valuation & Recommendation

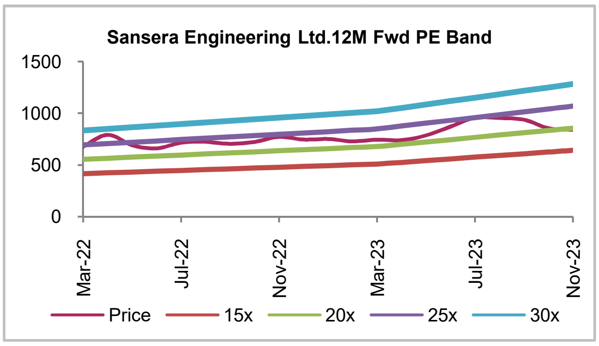
We believe the stock is currently trading at a reasonable forward PE multiple of 16x based on our FY26 EPS estimates, considering the above-discussed factors such as a) Higher sales mix in Non-Auto ICE components driven by strong order books, b) Higher exports, c) The management's focus on improving margin trends, d) The Company's capability to generate strong operating cash flows, and e) Its capacity expansion plans. **We initiate coverage on the stock with a BUY rating and confidently award a Forward PE multiple of 20x on FY26 EPS to arrive at our TP of Rs 1,210 (Exhibit 17). The TP implies an upside of 26% from the CMP.**

Exhibit 17: Sansera Engineering Valuation*

FY26E	EPS	P/E multiple	Value(Rs / share)
Target Price	60.7	20	1210
CMP			960
Upside/(Downside) %			26%

*12mth Fwd PE Multiple

Exhibit 18: 1 YR FWD PE Band chart



Source: Company, Axis Securities

Exhibit 19: Peer Comparison

Company	Price	Mkt Cap	PE (x)				EV EBITDA (x)				ROE(%)			
	Rs	RsMn	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E	2023	2024E	2025E	2026E
BHARAT FORGE CO	1,221	5,68,484	82.5	55.8	33.2	29.0	30.1	27.3	19.3	16.6	8.0	16.3	20.1	20.2
SKF INDIA LTD	4,697	2,32,257	42.9	44.4	34.5	29.2	N/A	30.3	24.7	21.3	24.8	22.4	22.9	26.7
CRAFTSMAN AUTOMATION	5,262	1,11,196	48.0	31.4	25.4	20.4	17.4	13.5	8.2	32.0	23.4	23.3	23.4	23.9
SUNDRAM FASTENERS	1,239	2,60,349	51.8	47.4	35.0	28.1	30.8	27.8	21.9	18.1	18.0	21.1	21.5	33.2

Source: Bloomberg, Priced as of 19thDec'23.

Management Profile

Key Management Personnel	Experience
Mr S Sekhar Vasan, *Chairman and MD*	He has over 40 years of experience in the field of manufacturing precision products. He holds a bachelor of technology degree from the Indian Institute of Technology, Madras, and a postgraduate diploma in management from the Indian Institute of Management, Bangalore.
Mr F R Singhvi, *Joint MD*	He has 39 years of professional experience and has been associated with Sansera for over 15 years now and guides the automobile and aerospace business.
B R Preetham, *Group CEO*	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 30 years of experience and has oversight across all areas of the company's business including developing and maintaining relationships with companies and suppliers.
Mr. Vikas Goel, *CFO*	He has 30+ years of experience and previously worked with Ingersoll-Rand, Stanley Black & Decker, Weir and Motherson Sumi. He is a Member of ICAI; Associate member of ICWAI and has a Bachelor of commerce from the University of Delhi.
Praveen Chauhan, *COO*	He has 36+ years of experienceand has been associated ~18 years at Sansera. Previously worked with Maruti Udyog Limited Diploma in Automobile Engineering from the Board of Technical Education Delhi

Source: Company

Key Risks

Sale of products to certain key customers

The top five customers (Bajaj, HMSI, Maruti, Volvo, TVS) contribute upto 50% of the total sales revenue. The company is therefore dependent on certain key customers for a significant portion of the sales, the loss of any one key customer, if not replaced, may have a material adverse effect on business. Sansera must consistently try to diversify its customer mix to reduce dependence on any one customer.

Pricing pressure from OEMs

OEMs in the precision components industry generally pursue price reduction initiatives with their suppliers which may affect the company's profit margins. If it's unable to offset customer price reductions in the future through improved operating efficiencies, new manufacturing processes, sourcing alternatives and other cost reduction initiatives, results of operations and financial condition may be materially adversely affected.

A substantial portion of revenue from key product families

Sansera is one of the leading Indian manufacturers of (i) connecting rods, crankshafts, rocker arms and gear shifter forks for two-wheelers (largest supplier of connecting rods, rocker arms and gear shifter forks to two-wheeler OEMs in India) and (ii) connecting rods and rocker arms for passenger vehicles. Continued market acceptance of these products is therefore critical to the company's future success. Sansera must therefore reduce dependence on these products by developing and introducing new products or feature enhancements promptly.

Recruit and Retain qualified and skilled personnel

Driven primarily by the higher churn in trainees and apprentices, the attrition of employees was 23% in FY23. The specialized skills required in the industry are difficult and time-consuming to acquire; hence a long period is required to hire and train replacement personnel. The company must take necessary steps in skill building and reduce employee attrition by aligning the company's objectives with the individual's goal.

Any downturn in the Automobile Industry in India

Almost90% of the total sales mix comprises automobile products. In the event of a cyclical slowdown, the company's financials may get constrained, impacting its loan repayment ability. The company is therefore focused on leveraging existing capabilities to manufacture precision components for several non-automotive sectors and has established its presence in the aerospace, off-road, and agriculture sectors.

Industry Overview

Source:

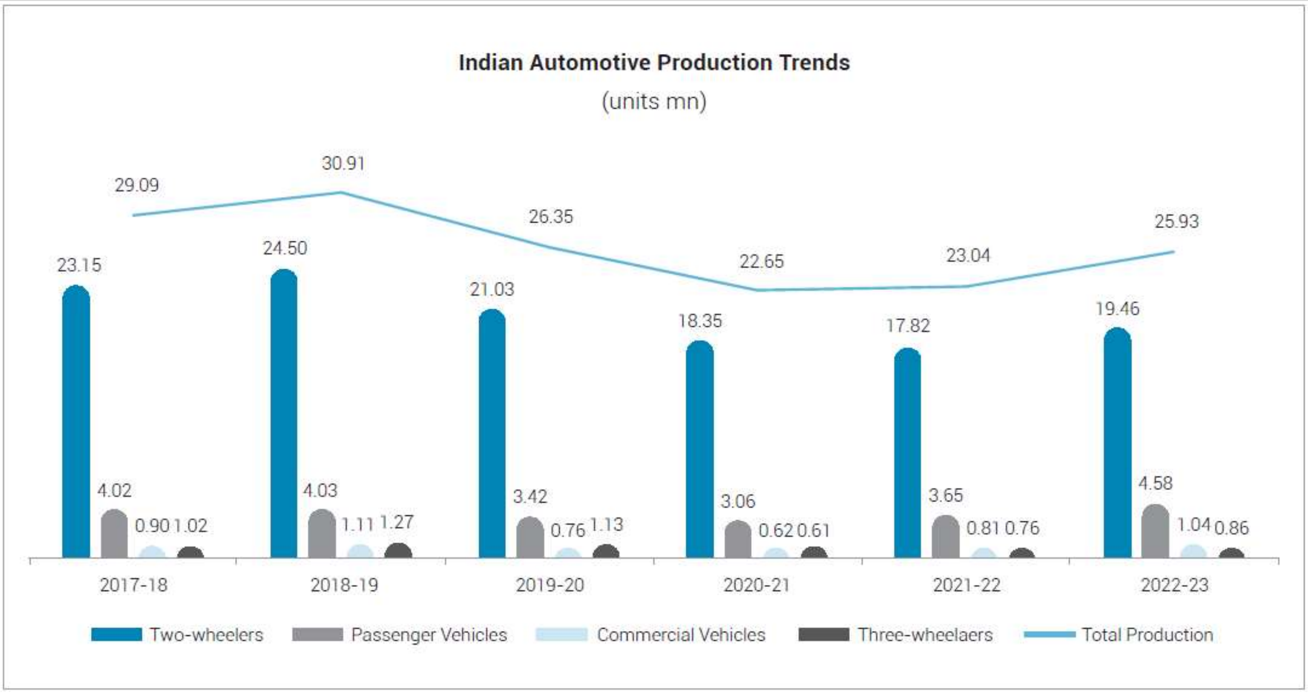
The Indian automotive industry is a crucial pillar of the country's economy, with strong backward and forward integration from businesses serving as the primary driver of growth. The contribution of this sector to the National GDP has risen to about 7.1% in FY23 from 2.77% in 1992-93.

In the automobile market in India, Two-wheelers and Passenger Cars accounted for 77% and 18% market share respectively during the year 2022-23. Export of the total number of automobiles increased from 4,134,047 in 2020-21 to 5,617,246 in 2021-22, registering a positive growth of 35.9%. There has been an FDI inflow of $33.77 billion in the industry from April 2000 till September 2022 which is around 5.48% of the total FDI inflows in India during the same period.

Automobile Production Trend

The domestic industry produced a total of 25.93 Mn vehicles in FY23 registering a growth of 12.6% YoY.

Automobile Production Trend



Source: **https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/feb/doc2023217160601.pdf**, Sansera Engineering Annual Report FY23, ASL

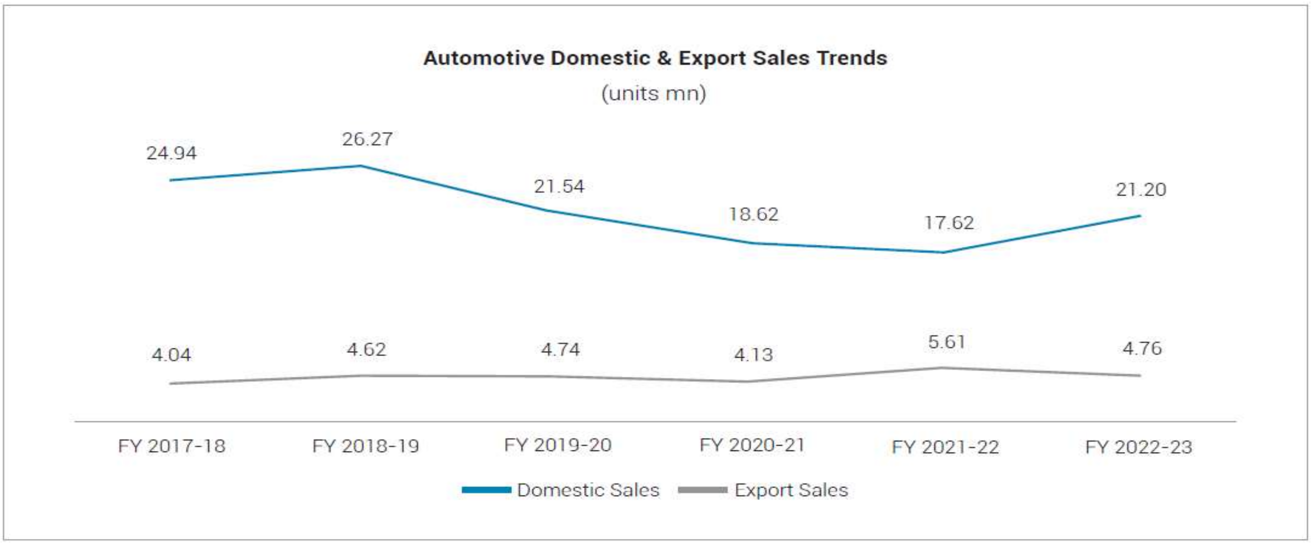
Automobile Domestic Sales Trend

In FY23 domestic sales of vehicles reached 21.23 Mn units in FY23, closer to pre-pandemic levels of 21.54 Mn units. During this period share of passenger vehicles increased from 12.8% to 18.3% with a proportionate decrease in the share of two/three wheelers.

Automobile Exports Trend

Passenger vehicle exports increased by 15% from 0.58 Mn to 6.63 Mn units, while all other segments experienced a degrowth in exports as compared to last year-CV-15%,3W-27% and 2W-18%.

Automobile Production Trend



Source: **https://static.pib.gov.in/WriteReadData/specificdocs/documents/2023/feb/doc2023217160601.pdf**, Sansera Engineering Annual Report FY23, ASL.

Indian Electric Vehicle (Ev) Market

The Indian electric vehicle market was valued at $7,025.56 Mn in 2021 and is anticipated to reach $30,414.83 Mn by 2027, registering a CAGR of 28.93% during the estimated period.The growing demand for fuel-efficient, high-performance, and low-emission vehicles, increasingly strict laws and regulations on vehicle emissions, lowering battery costs, and rising fuel costs are expected to drive the growth.The Government has reduced the amount of subsidy provided to electric two-wheeler vehicles. In Jun'22, the Government reduced the subsidy incentive cap from 40% of a vehicle's value to15% and capped the subsidy of Rs10,000 per kWh of battery.

The Indian automotive industry has stood the test of time. However, the increasing incorporation of electronic chips in every vehicle is likely to unfold various challenges, necessitating the industry's adaptation to this new dynamic. The industry is bullish on increasing investments in the electrification space, with suppliers intensifying Capex towards the localisation of EV-related products as well as developing the entire EV ecosystem. The Indian Government's push, in the form of automotive PLI schemes, to encourage local manufacturers to adopt advanced automotive technologies is poised to benefit the local EV market significantly. In addition, it is also set to enhance exports of these advanced components from India.

Industry Outlook

In FY23, domestic automobile industry sales grew by 20%, with robust demand for passenger vehicles, particularly in the utility vehicle sub-segment, constituting over 50% of total passenger vehicle sales. Inflation and rising interest rates may impact consumer sentiments. The two-wheeler segment is expected to grow, driven by rural India's economic rebound. Medium and Heavy Commercial Vehicles show strong growth due to government infrastructure push. Anticipated industry Capex in FY24 exceeds Rs 20,000 Cr, focusing on new products, technology, and EV components. The Indian auto components industry remains optimistic about exports despite uncertainties in Europe. Manufacturers aim to provide high-quality, technology-led components globally, benefiting from India's capacity expansion and the presence of global players expanding in the country.

Aerospace & Defence Industry

Trends and Challenges in India's Aerospace and Defence Sector: The Aerospace and Defence industry in India is poised at a critical juncture, marked by modernization and indigenization initiatives driven by one of the world's largest military forces. Amid the global economic recovery from the COVID-19 pandemic in 2022, the Aerospace and Defence (A&D) sector is experiencing a resurgence. The revival of air travel is driving increased aircraft orders and aftermarket activity. Global commercial aerospace OEMs expect a return to pre-pandemic passenger traffic levels by the end of FY24. According to Deloitte's Outlook Survey, supply chain disruptions and talent shortages are anticipated as major challenges for the industry in 2023. Inflation poses a pervasive challenge for the industry, with potential price hikes being a significant risk. The correlation between passenger travel demand and ticket prices, influenced by jet fuel prices, introduces volatility. To mitigate this, aircraft manufacturers are investing in fuel-efficient designs, cost reduction measures, and exploring lower-and zero-emission commercial aircraft for the future.

Modernization, Make in India, and Strategic Initiatives: The Indian Ministry of Defence is driving an extensive modernization plan, focusing on updating outdated equipment through long-term perspective plans, capability plans, and capital acquisition plans. The Government of India has identified the Aerospace and Defence sector as a key area for the Make in India (Aatmanirbhar Bharat) program. Substantial efforts have been made to promote indigenous manufacturing infrastructure, supported by a robust research and development ecosystem.

Financials (Consolidated)

Profit & Loss (Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Net sales	2,338	2,688	3,179	3,705
Raw materials	1,017	1,156	1,351	1,571
Staff costs	318	366	432	500
Other expenses	626	719	826	963
Total expenses	196	224	261	303
EBITDA	377	447	569	671
Depreciation	130	153	173	192
EBIT	247	294	396	479
Other income	18	20	24	28
Interest expense	62	66	75	63
Share of Profit/loss from associates	-	-	-	-
Exceptional (expenses)/income	-	-	-	-
Profit before tax	203	249	346	445
Tax expense	55	67	93	120
Adjusted PAT	-	-	-	-
Reported PAT	148	181	252	325
No. of shares	52.7	52.7	52.7	52.7
Reported EPS (Rs/share)	27.7	33.9	47.2	60.7
Adjusted EPS	27.7	33.9	47.2	60.7

Source: Company, Axis Securities

Balance Sheet **(Rs Cr)**

Y/E Mar	FY23	FY24E	FY25E	FY26E
SHAREHOLDER'S FUNDS				
Equity Share Capital	11	11	11	11
Reserves and Surplus	1157	1323	1559	1865
Non-Controlling Interest	14	17	20	25
Total Shareholders Funds	**1182**	**1350**	**1590**	**1901**
NON-CURRENT LIABILITIES				
Long Term Borrowings	263	363	283	183
Long-Term Finance/Lease Liabilities	82	82	82	82
Long Term Provisions	3	3	3	3
Deferred Tax Liabilities	69	69	69	69
Other LT liabilities	49	49	49	49
Total Non-Current Liabilities	**466**	**566**	**486**	**386**
CURRENT LIABILITIES				
Short Term Borrowings	449	449	449	449
Short-Term Lease Liabilities	10	10	10	10
Trade Payables	293	336	418	487
Other Current Liabilities	64	64	64	64
Total Current Liabilities	**815**	**859**	**941**	**1010**
Total Capital And Liabilities	**2463**	**2775**	**3016**	**3297**
ASSETS				
NON-CURRENT ASSETS				
Net Tangible Assets	1269	1356	1408	1416
Capital Work-In-Progress	76	136	192	242
Intangible Assets	124	124	124	124
Financial Assets	39	39	39	39
Other Non-Current Assets	40	40	40	40
Total Non-Current Assets	**1548**	**1696**	**1803**	**1861**
CURRENT ASSETS				
Inventories	371	426	479	558
Current Investments	1	1	1	1
Trade Receivables	433	497	588	686
Cash And Cash Equivalents	62	106	97	142
Other Current Assets	48	48	48	48
Total Current Assets	**914**	**1079**	**1213**	**1435**
TOTAL ASSETS	**2463**	**2775**	**3016**	**3297**

Source: Company, Axis Securities

Cash Flow **(Rs Cr)**

Y/E Mar	FY23	FY24E	FY25E	FY26E
Cash flows from operating activities				
Profit before tax for the year	203	249	346	445
Finance costs	62	66	75	63
Depreciation and amortisation	130	153	173	192
Others	-62	-67	-93	-120
Cash Flow From operation before changes in WC	333	400	500	579
Change in operating assets and liabilities	-76	-76	-62	-108
Net cash generated by operating activities	**256**	**324**	**438**	**471**
Cash flows from investing activities				
Capex	-242	-300	-280	-250
Investments	-1	-	-	-
Others	2	-	-	-
Net cash (used in)/generated by investing activities	**-241**	**-300**	**-280**	**-250**
Cash flows from financing activities				
Change in borrowing	65	100	-80	-100
Interest on borrowings	-60	-66	-75	-63
Other	-	-	-	-
Dividends paid(-)	-11	-13	-13	-13
Net cash used in financing activities	**-6**	**21**	**-168**	**-176**
Net increase/ (decrease) in cash and cash equivalents (A+B+C)	**94**	**446**	**-96**	**454**
CCE at the beginning of the year	38	50	94	85
Effect of exchange differences on translation of foreign currency cash and cash equivalents	2	-	-	-
CCE at the end of the year	**496**	**942**	**846**	**1,299**

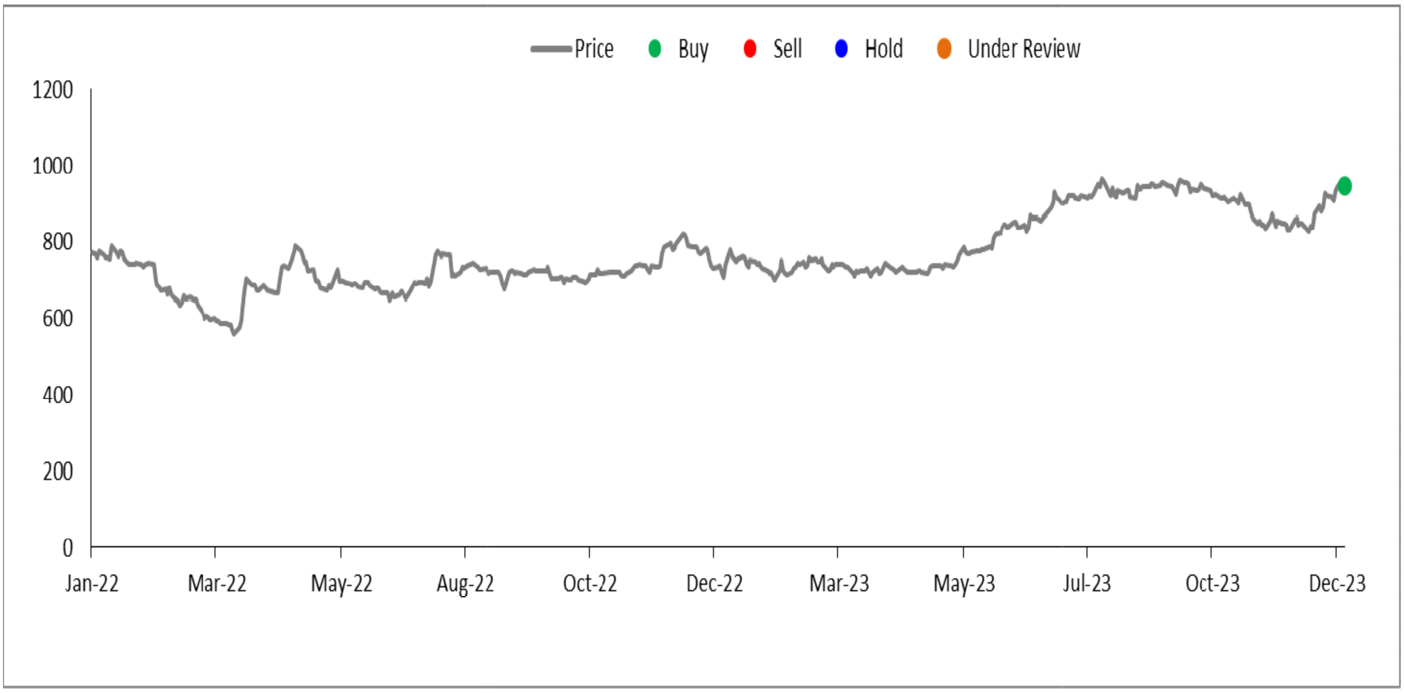
Source: Company, Axis Securities

Ratio Analysis **(x) / (%)**

Y/E Mar	FY23	FY24E	FY25E	FY26E
Valuation Ratios				
PER	26.9	28.3	20.3	15.8
P/BV (x)	3.3	3.7	3.2	2.7
EV/Ebitda (x)	12.5	13.1	10.2	8.4
EV/Sales (x)	2.01	2.19	1.83	1.53
Dividend Yield %	0.33%	0.26%	0.26%	0.26%
Return Ratios				
ROE	13.34%	14.30%	17.14%	18.57%
ROCE	13.51%	14.46%	17.75%	19.96%
ROIC	17.86%	18.29%	21.66%	23.71%
Leverage Ratios				
Debt / equity (x)	0.72	0.71	0.55	0.41
Net debt/ Equity (x)	0.63	0.59	0.46	0.31
Net debt/Ebitda (x)	1.97	1.78	1.28	0.87
Operational Ratios				
Sales growth (% YoY)	17.6%	15.0%	18.3%	16.6%
EBITDA growth (% YoY)	13.0%	18.6%	27.3%	17.9%
Net Profit growth (% YoY)	12.5%	22.3%	39.1%	28.6%
EBITDA Margin %	16.12%	16.64%	17.90%	18.10%
Net profit Margin %	6.34%	6.75%	7.94%	8.76%
Efficiency Ratios				
Total Asset Turnover (x)	1.00	1.03	1.10	1.17
Sales/Net block(x)	1.97	2.05	2.30	2.62

Source: Company, Axis Securities

Sansera Engineering Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
20-Dec-23	BUY	1,210	Initiating Coverage

Source: Axis Securities

About the analyst

1. **Research Analyst: Shridhar Kallani** is a Chartered Accountant and a graduate from St.Xaviers College, Kolkata with approx 2 years of work experience at ASL in Equity market/Research. Prior to this he has ~5 years of work experience in Tyre industry.

2. **Sr. Research Analyst: Aditya Welekar** is a PGDBM in Finance with~10 years of experience in Equity Market/Research

Sector: Automobiles & Auto Ancillary

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