

## SANSERA ENGINEERING LIMITED

Sansera Engineering Limited (Sansera) manufactures and supplies diverse range of precision forged and machined components that critical for engine, transmission, suspension, braking, chassis, and other systems for the two-wheeler (2Ws), passenger vehicle (PVs) and commercial vehicle (CV) vertical. They also supply components to the aerospace sector and for off-road vehicles. In India, it has nine out of the top 10 2W OEMs and the leading PV OEM as customer. Globally, it supplies to six out of top 10 global Light Vehicle OEMs and three of the top 10 MHCV OEMs. Its diversified product/geographic/customer exposure, growing product families (69 in FY21 vs. 51 in FY19) and growing customer base (71 in FY21 vs. 64 in FY19) have aided market share and wallet share gains. 2W, PVs and CVs accounted for ~50%, 24% and 13% of FY21 revenue from products respectively.

**Positives:** (a) A leading supplier of complex and high-quality precision engineered components that is gaining market share across automotive and non-automotive sectors. (b) Well diversified business model. (c) Advanced capabilities in design and engineering, machine building and automation resulting in continuous new product development. (d) Long-standing relationships with well-known Indian and global OEM customers.

**Investment concerns:** (a) Lack of firm commitment long-term supply agreements with customers (b) Dependence on the sale of products to certain key customers (c) Seasonal or economic cyclicalities and failure to adapt to industry trends and evolving technologies (d) Continuing impact of the COVID-19.

**Outlook & Valuation:** Despite ~13% annual production decline in 2Ws and PVs in India and ~20% annual decline in Global Light Vehicle production during FY19-21, Sansera's revenue only declined by 10% YoY in FY20 and grew by 6% YoY in FY21. Its higher than industry growth rate has been on account of focus on other verticals, new product development and new customer additions. Recovery in Indian and Global production volumes along with benefits from vendor consolidation are likely to drive revenue growth going ahead. Moreover, its long-standing relationships of ~20+ years with the 2<sup>nd</sup> and 3<sup>rd</sup> largest Indian 2W OEM and 34 years with largest Indian PV OEM highlight its credentials. At ₹744, FY21 P/E of 35x appears reasonable given the expected improvement in earnings CAGR over FY21-23 and hence we recommend "SUBSCRIBE" on the issue.

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	<b>1,624</b>	<b>1,457</b>	<b>1,549</b>
% chg	19.6	-10.3	6.3
<b>Reported Net Profit</b>	<b>96</b>	<b>80</b>	<b>108</b>
% chg	12.9	-16.5	34.5
EBITDA (%)	17.8	15.4	17.6
<b>EPS (₹)</b>	<b>20.6</b>	<b>15.6</b>	<b>21.0</b>
P/E (x)	36.2	47.6	35.4
P/BV (x)	5.6	5.0	4.4
ROE (%)	16.5	11.1	13.1
ROCE (%)	10.9	9.2	9.7
EV/EBITDA	15.5	19.9	16.2
EV/Sales	2.8	3.1	2.8

Source: Company, Angel Research; Note: Valuation ratios at upper price band.

Please refer to important disclosures at the end of this report

## SUBSCRIBE

Issue Open: Sep 14, 2021

Issue Close: Sep 16, 2021

### Issue Details

Face Value: ₹2

Present Eq. Paid up Capital: ₹9.4 cr

Offer for Sale: ₹1,283 cr

Fresh issue: NA

Post Eq. Paid up Capital: ₹9.4cr

Issue size (amount): ₹1,283 cr

Price Band: ₹734-744

Lot Size: 20 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹3,771 cr - \*\* ₹2,823 cr

Promoters holding Pre-Issue: 43.91%

Promoters holding Post-Issue: 36.56%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post Issue Shareholding Pattern

Promoters	36.6%
Others	63.4%

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## Company background

Sansera is an engineering-led integrated manufacturer of complex and critical precision engineered components across automotive and non-automotive sectors. Within the auto, they manufacture and supply a wide range of precision forged and machined components and assemblies, such as connecting rod, rocker arm, crankshaft, gear shifter fork, stem comp, and aluminum forged parts, which are critical for engine, transmission, suspension, braking, chassis, and other systems for the 2W, PV and CV verticals. Within the non-auto, they manufacture and supply a wide range of precision components for the aerospace, off-road, agriculture and other segments, incl. engineering and capital goods. For FY21, they derived ~88%, and ~12% of their revenue from sale of products from the automotive sector and non-automotive sectors, respectively. For FY21 they derived ~65% of their revenue from sale of products from India and ~35% from Europe, USA and other foreign countries combined. They are one of the top 10 global suppliers of connecting rods within the Light Vehicle segment and one of the top 10 global suppliers of connecting rods within the CV segment (CY20). They have been gaining market share in connecting rods in terms of production volume (units) for (i) Light Vehicles with a global market share of 2.3% in CY20 vs. 0.9% in CY15 and (ii) CVs with a global share of 3% in CY20 vs. of 0.9% in CY15.

## Issue details

The IPO is made up of offer for sale of ~1.72cr shares by selling shareholders.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	2,25,58,375	43.91	1,87,86,178	36.56
Public	2,88,19,475	56.09	3,25,91,672	63.44
<b>Total</b>	<b>5,13,77,850</b>	<b>100.00</b>	<b>5,13,77,850</b>	<b>100.00</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Key Management Personnel

**Subramonia Sekhar Vasan** is the Chairman and Managing Director Sansera. He has been a Director of the Company since incorporation. He holds a bachelor's degree in technology from IIT, Madras and a post graduate diploma in management from IIM, Bangalore. He has 39+ years of professional experience.

**Fatheraj Singhvi** is the Joint Managing Director of the Company. He has over 39 years of professional experience. He is a chartered accountant and is a member of the Institute of Chartered Accountants of India.

**B R Preetham** is the Group Chief Executive Officer and has been associated with the Company since September 28, 1992. He holds a bachelor's degree in engineering from Bangalore University.

**Vikas Goel** is the Chief Financial Officer and has been associated with Sansera since July-19. He is a fellow member of the ICAI and is also an associate member of the Institute of Cost and Works Accountants of India. He has also previously worked at Motherson Sumi Systems Ltd and Delton Cables Ltd.

**Exhibit 1: Consolidated Profit & Loss Statement**

Y/E March (₹ Cr)	FY2019	FY2020	FY2021
<b>Total operating income</b>	<b>1,624</b>	<b>1,457</b>	<b>1,549</b>
% chg	19.6	-10.3	6.3
<b>Total Expenditure</b>	<b>1,335</b>	<b>1,232</b>	<b>1,277</b>
Cost of materials consumed	722	628	668
Consumption of stores and spares	151	131	134
Changes In Inventories	(17)	(2)	(4)
Conversion Charges	47	49	53
Power and fuel	84	75	67
Employee benefits expense	217	213	214
Other expenses	131	138	147
<b>EBITDA</b>	<b>289</b>	<b>225</b>	<b>272</b>
% chg	15.9	-22.3	21.1
<b>(% of Net Sales)</b>	<b>17.8</b>	<b>15.4</b>	<b>17.6</b>
Depreciation & Amortization	76	94	102
<b>EBIT</b>	<b>213</b>	<b>131</b>	<b>170</b>
% chg	13.1	-38.7	30.3
<b>(% of Net Sales)</b>	<b>13.1</b>	<b>9.0</b>	<b>11.0</b>
Finance costs	51	58	47
Other income	16	16	23
<b>(% of Sales)</b>	<b>1.0</b>	<b>1.1</b>	<b>1.5</b>
<b>Recurring PBT</b>	<b>162</b>	<b>73</b>	<b>123</b>
% chg	12.1	-55.1	69.2
Exceptional item	13	-	-
Tax	67	9	36
PAT Attributed to Others	2	(0)	2
<b>PAT (reported)</b>	<b>96</b>	<b>80</b>	<b>108</b>
% chg	12.9	-16.5	34.5
<b>(% of Net Sales)</b>	<b>5.9</b>	<b>5.5</b>	<b>7.0</b>
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>20.6</b>	<b>15.6</b>	<b>21.0</b>

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ Cr)	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	9	9	9
Other equity	676	759	869
<b>Shareholders' Funds</b>	<b>685</b>	<b>768</b>	<b>878</b>
<b>Total Loans</b>	<b>685</b>	<b>725</b>	<b>640</b>
Other liabilities	138	120	134
<b>Total Liabilities</b>	<b>1,508</b>	<b>1,614</b>	<b>1,653</b>
<b>APPLICATION OF FUNDS</b>			
Property, Plant and Equipment	889	942	1,000
Right-of-use assets	90	87	89
Capital work-in-progress	49	68	60
Intangible assets	36	35	38
Non-Current Investments	-	4	4
Other Non-Current Asset	58	54	55
<b>Current Assets</b>	<b>624</b>	<b>638</b>	<b>683</b>
Inventories	243	239	249
Investments	1	0	1
Trade receivables	271	259	313
Cash and Cash equivalents	32	72	65
Loans & Other Financial Assets	26	24	22
Other current assets	52	45	33
<b>Current Liability</b>	<b>238</b>	<b>214</b>	<b>276</b>
<b>Net Current Assets</b>	<b>386</b>	<b>424</b>	<b>407</b>
<b>Total Assets</b>	<b>1,508</b>	<b>1,614</b>	<b>1,653</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹cr)	FY2019	FY2020	FY2021
<b>Operating profit</b>	<b>165</b>	<b>89</b>	<b>146</b>
Net changes in working capital	(32)	26	5
Cash generated from operations	260	267	289
Direct taxes paid (net of refunds)	(41)	(25)	(33)
<b>Net cash flow from operating activities</b>	<b>218</b>	<b>241</b>	<b>256</b>
Purchase of Assets	(238)	(177)	(135)
Interest received	1	1	2
Others	(0)	(1)	(7)
<b>Cash Flow from Investing</b>	<b>(238)</b>	<b>(177)</b>	<b>(139)</b>
Repayment (long term borrowings)	55	(14)	12
Repayment (short term borrowings)	15	49	(99)
Proceeds from Issue of Shares	-	-	-
Interest paid	(51)	(58)	(46)
Payment of Lease liabilities	(4)	(6)	(6)
Others	(0)	-	0
<b>Cash Flow from Financing</b>	<b>14</b>	<b>(29)</b>	<b>(139)</b>
Inc./(Dec.) in Cash incl. forex fluctuation	(5)	35	(23)
<b>Opening Cash balances</b>	<b>34</b>	<b>24</b>	<b>60</b>
<b>Closing Cash balances</b>	<b>24</b>	<b>60</b>	<b>37</b>

Source: Company, Angel Research

### Key Ratios

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	36.2	47.6	35.4
P/CEPS	21.1	21.9	18.2
P/BV	5.6	5.0	4.4
EV/Sales	2.8	3.1	2.8
EV/EBITDA	15.5	19.9	16.2
<b>Per Share Data (Rs)</b>			
EPS (Basic)	20.6	15.6	21.0
EPS (fully diluted)	20.6	15.6	21.0
Cash EPS	35	34	41
Book Value	133	150	171
<b>Returns (%)</b>			
ROE	16.5	11.1	13.1
ROCE	10.9	9.2	9.7
<b>Turnover ratios (x)</b>			
Receivables (days)	61	65	74
Inventory (days)	67	71	71
Payables (days)	51	51	65
Working capital cycle (days)	76	84	80

Source: Company, Angel Research

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