

Sansera Engineering

BUY

Choice

In Q1FY25, Sansera delivered a slightly lower than expected performance, however, overall growth in terms of revenue/EBIDTA/PAT are satisfactory. Revenue for the quarter stood at Rs.7.4bn (+12.7%/-0.3% QoQ) vs est of Rs.8bn, growth in domestic business helped to deliver double digit growth. Gross margin saw a jump of 18.6% YoY to Rs.4.4bn due to product mix. Operating profit for the quarter grew 11.5% YoY/+0.4% QoQ to Rs.1.27bn vs est of Rs.1.39bn and margin contracted on yearly basis by 18bps to 17.1%. Increased in staff cost and other expenditure offset the richer product mix. PAT for the quarter increase by 10.9% to Rs.496mn.

- Management expects significant growth, with 30%-35% in FY25 and 40%-50% CAGR in the aerospace and defense segment over the next 2-3 years. Capex for FY25 is projected at INR 4,500 million, with 40%-45% allocated to tech-agnostic and non-automotive areas. The Swedish subsidiary is expected to return to 12%-13% EBITDA margins next year, while MMRFIC is projected to maintain EBITDA margins above 50%. Overall, the company aims to grow 8%-10% above industry rates.
- However, The company faces potential risks from a slowdown in international markets, particularly in the second half of FY25, which could impact overall growth. Additionally, cost pressures in the xEV segment and challenges from the reorganization of its Swedish subsidiary with Volvo may affect future margins and profitability.
- Continued growth, driven by light-weighting and premiumization, is set to outpace industry expectations:** SEL has already started production of aluminium forged components, and all the existing lines are fully booked, with plans to add more lines and the new lines are coming for heavier component in Aluminium and steel. In the 2W segment, premiumization trend continues to increase, and some of SEL's customers are aggressively adding premium content to their vehicles like HD and Triumph. The new capex is largely towards the light-weighting products. We expect the light-weighting and premiumization trend to continue supporting better-than-industry growth for SEL.

Outlook & Valuation: Given the industry's shift towards higher CC segments from lower CC 2W and the integration of more premium components with lightweight materials, the automotive industry is poised to register healthy growth moving forward. SEL is undergoing a transformation from an automotive to a non-automotive and xEV-agnostic products supplier by its ability to adapt to these changes. In the medium to long term, we anticipate substantial revenue growth for SEL driven by: 1) an increasing proportion of revenue generated by the non-automotive segment; 2) securing new orders for engine-agnostic components; 3) an increase in the share of aluminum components; and 4) a revival in the export business, which will contribute to margin expansion in the coming quarters. We expect revenue/EBIDTA/PAT to grow at a CAGR of 20%/24%/29% over FY24-26E and value the stock based on 27x FY26E EPS and arrive at the TP of Rs.1557 and recommend BUY rating.

Quarterly performance

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Net Sales	7,439	6,601	12.7	7,458	(0.3)
Material Expenses	3,042	2,894	5.1	3,193	(4.7)
Gross Profit	4,397	3,706	18.6	4,265	3.1
Employee Expenses	1,068	910	17.4	999	6.9
Other Operating Expenses	2,054	1,653	24.3	1,996	2.9
EBITDA	1,275	1,144	11.5	1,270	0.4
Depreciation	400	349	14.6	397	0.6
EBIT	876	795	10.2	873	0.3
Interest Cost	193	189	1.8	225	(14.6)
PBT	687	610	12.7	645	6.5
RPAT	501	452	11.0	465	7.8
APAT	496	447	10.9	461	7.5
Adj EPS (Rs)	9.2	8.5	8.6	8.6	6.7

Margin Analysis	Q1FY25	Q1FY24	YoY (bps)	Q4FY24	QoQ (bps)
Gross Margin (%)	59.1	56.2	296	57.2	192
Employee Exp. % of Sales	14.4	13.8	57	13.4	96
Other Op. Exp % of Sales	27.6	25.0	257	26.8	85
EBITDA Margin (%)	17.1	17.3	(18)	17.0	11
Tax Rate (%)	26.9	25.9	96	28.7	(184)
APAT Margin (%)	6.7	6.8	(11)	6.2	48

Source: Company, CEBPL

Aug 12, 2024	
CMP (Rs)	1,396
Target Price (Rs)	1,557
Potential Upside (%)	11.6

Company Info

BB Code	SANSERA IN EQUITY
ISIN	INE953001021
Face Value (Rs.)	2.0
52 Week High (Rs.)	1458
52 Week Low (Rs.)	821
Mkt Cap (Rs bn.)	75.4
Mkt Cap (\$ bn.)	0.9
Shares o/s (Mn.)/F.F(%)	53.9/53
Adj. TTM EPS (Rs)	35.7
FY26E EPS (Rs)	57.7

Shareholding Pattern (%)

	Jun-24	Mar-24	Dec-23
Promoters	34.79	35.04	35.05
FII's	15.56	22.11	22.73
DII's	34.67	28.56	28.22
Public	14.98	14.29	14.00

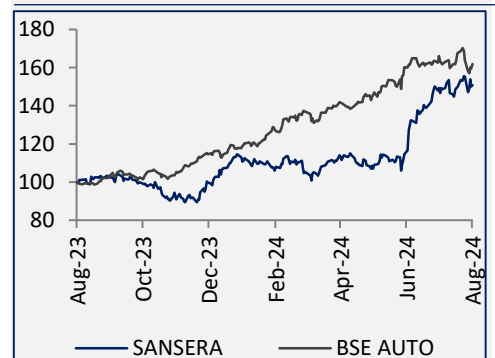
Relative Performance (%)

YTD	3M	6M	1Y
BSE AUTO	11.3	27.9	61.9
SANSERA	40.8	39.7	50.8

Year end March (INR bn)

Particular	FY24	FY25E	FY26E
Revenue	28.1	34.3	40.2
Gross Profit	15.9	19.0	22.4
EBITDA	4.8	6.2	7.4
EBITDA (%)	17.1	18.0	18.5
EPS (INR)	34.7	44.1	57.7

Rebased Price Performance



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- The non-automotive segment will diversify the product portfolio:** To strengthen offering in the aerospace field, company to add a special process facility to the existing machining facility. Expect to add this capacity by mid FY26 and subsequently fully utilized by FY27. Currently the company is dependent on outside vendors for doing all the special process but with a lot of potential new order inflows and higher value-added parts the company plans to add this facility. Overall investment for this would be 30 crores. SEL's future expansion is happening in the non-automotive segment and the company has also realigned its vision and raised its long-term sales contribution targets for xEV and tech-agnostic products from 15% to 20%. Sixty percent of sales contribution will come from auto ICE, while 20% each will come from non-auto and xEV and tech-agnostic portfolios.

CEBPL Estimates vs Actual

Particulars (Rs.mn)	Actual	CEBPL Est.	Deviation (%)
Revenue	7,439	8,055	(8)
EBIDTA	1,275	1,390	(8)
EBIDTA Margin (%)	17.1	17.3	(11)bps
PAT	496	527	(6)

Source: Company, CEBPL

Changes in Estimates

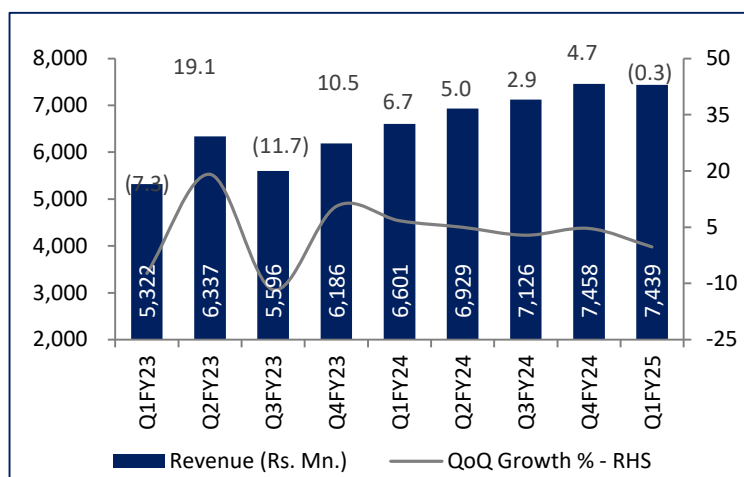
Income Statement (INR Mn.)	FY25E			FY26E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Net sales	34,300	33,481	2	40,196	39,052	3
EBITDA	6,174	6,027	2	7,436	7,225	3
EBITDA margin(%)	18.0	18.0	0bps	18.5	18.5	0bps
APAT	2,354	2,246	5	3,075	2,920	5
EPS	44.1	42.1	5	57.7	54.8	5

Source: Company, CEBPL

Management Call – Highlights

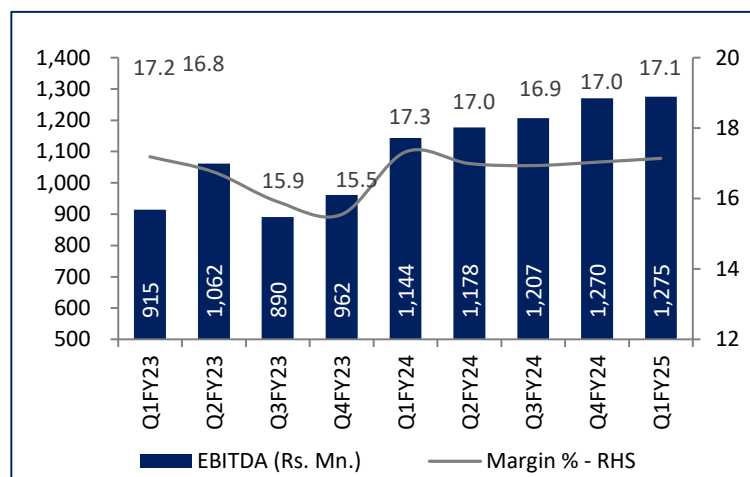
- Domestic business saw a healthy growth in demand, especially on the 2W side.
- On international business, the growth has been on the back of client additions, valid share expansion, and some of the orders moving to commercial production.
- Order book stood at INR16.9 billion as of June 24, out of which 63% of orders are from international business.
- xEV business grew by 29% YoY despite the fact that one of the key customers have reduced considerable business in the two-wheeler segment.
- Aerospace and defence segment delivered a top-line of 256 million, with a 28% YoY growth, despite some delays in orders from a key customer. Added customers like Saab and Triumph Aerospace. The company expects between 30%-35% growth for FY25 and 40%-50% CAGR growth in this sector for the next 2-3 years.
- Solid growth on the 2W side, seeing increase in content per vehicle due to premiumisation.
- Current capacity utilization is around 65-70%.
- Capex for FY25 to be around 4500mn. 40% to 45% of the Capex is expected to go towards tech agnostic and non-automotive segment.
- To strengthen offering in the aerospace field, company to add a special process facility to the existing machining facility. Expect to add this capacity by mid FY26 and subsequently fully utilized by FY27. Currently the company is dependent on outside vendors for doing all the special process but with a lot of potential new order inflows and higher value-added parts the company plans to add this facility. Overall investment for this would be 30 crores.
- Also recently signed a MOU with the government of Karnataka to acquire 55 acres of land.
- Gross margin expansion was due to a favourable product mix.
- The standalone growth for the quarter on YoY basis is around 17%. On consolidated basis growth is around 13% due to de-growth of about 20% in the Swedish subsidiary.
- De-growth in the Swedish subsidiary is due to reorganization of the business with Volvo. Acquired two key business wins for the Swedish subsidiary, which will enable to go back to 12% to 13% EBITDA margins starting from next financial year.
- MMRFIC are working on multiple channels for defence, surveillance and also in space. Working on a defence seeker radar program, which they have been working on from last four to five years, where they have made significant progress. Lot of upside to this project because currently the end users seems to be importing all these things from outside India so MMRFIC is set to benefit from the entire indigenization program. The company expects the average EBITDA numbers for MMRFIC would be upwards of 50%.
- The management expects to grow by about 8% to 10% higher than the industry growth.
- Domestic revenues grew by 12% on a YoY basis and International revenues saw a growth of 17% on a YoY basis.
- Contribution of top 5 customers has reduced from 47.7% in Q1FY24 to 46.1% in Q1FY25
- Net debt as on Jun-24 stood at Rs. 7,718 Mn

Revenue remained flat QoQ



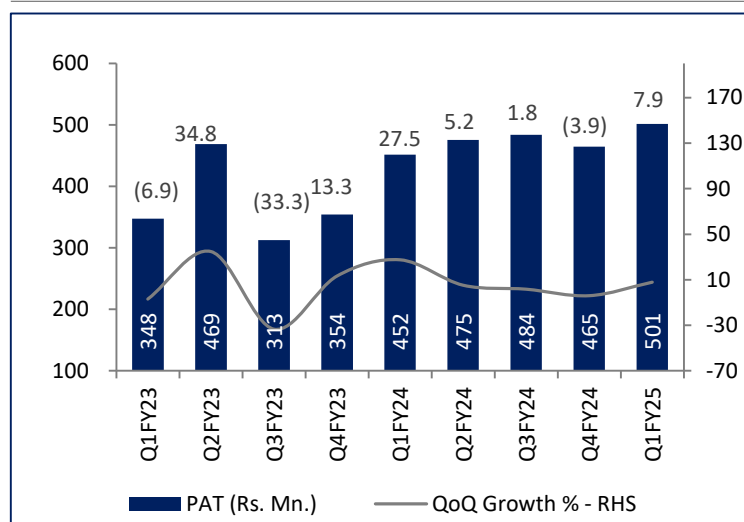
Source: Company, CEBPL

Margin (excluding other income) expanded 11bps QoQ



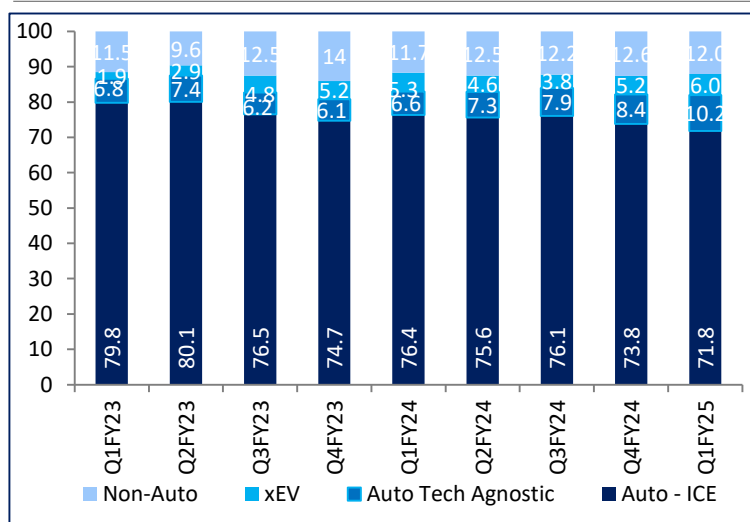
Source: Company, CEBPL

PAT jumped 7.8% QoQ



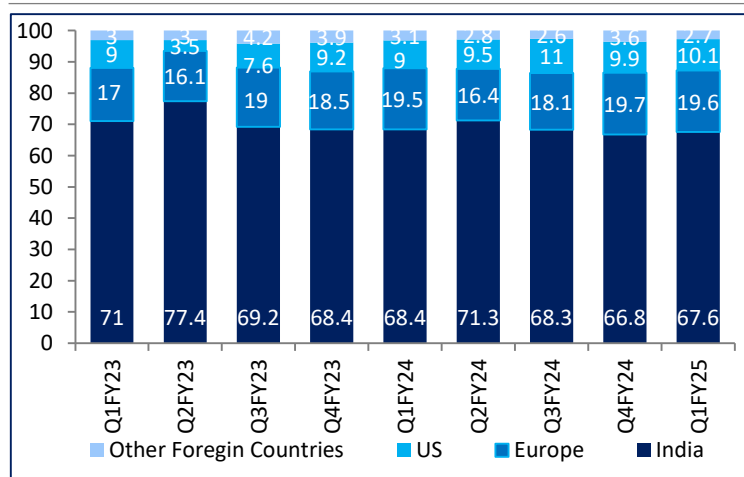
Source: Company, CEBPL

Segment Mix (%)



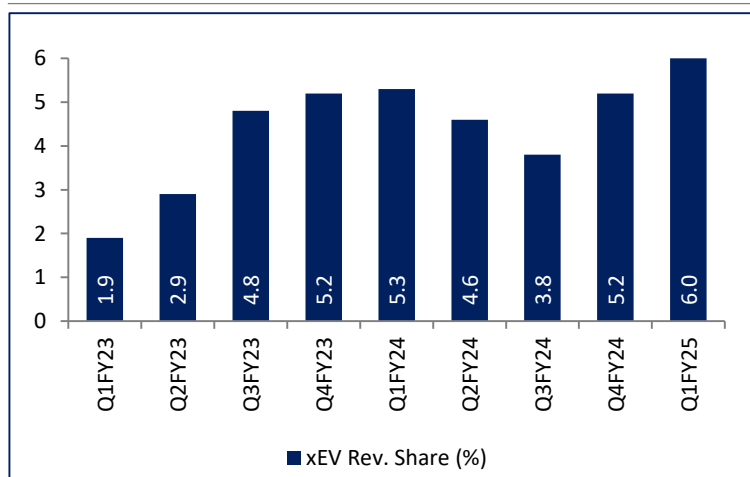
Source: Company, CEBPL

Geography Mix (%)



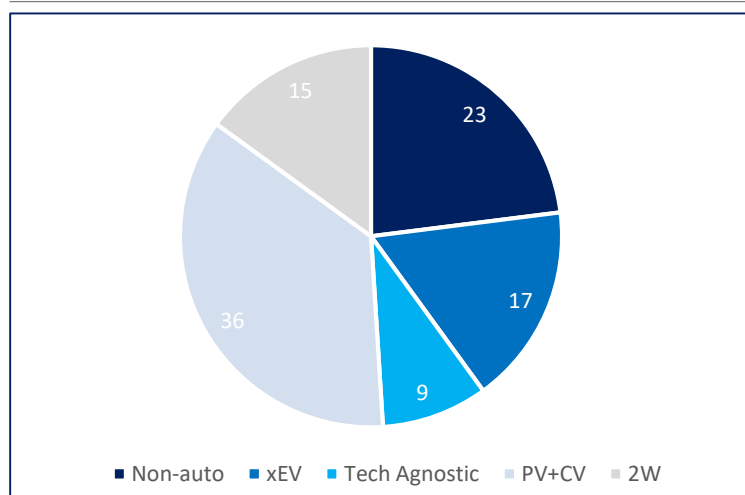
Source: Company, CEBPL

XEV Revenue Share



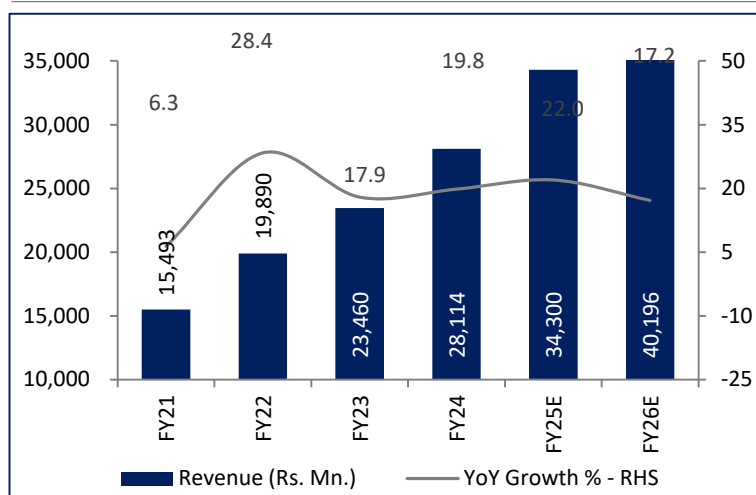
Source: Company, CEBPL

Rs.16.9bn Order Book Share (%) as on 30 June'24



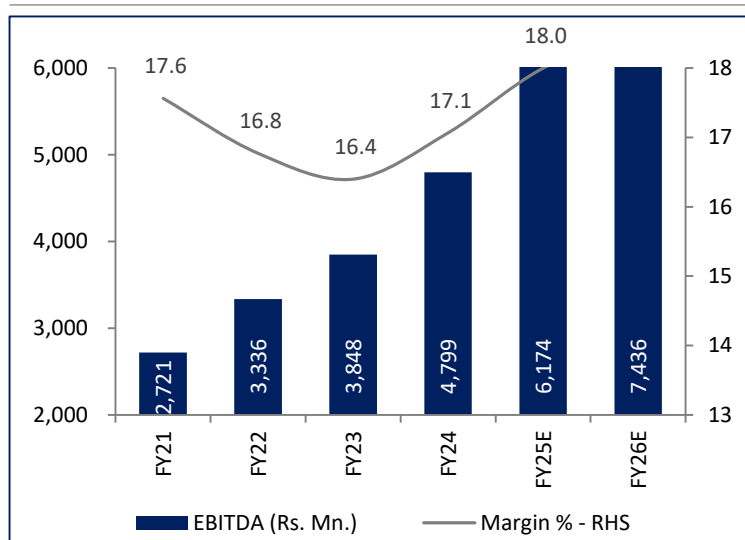
Source: Company, CEBPL

Revenue to grow on healthy order book



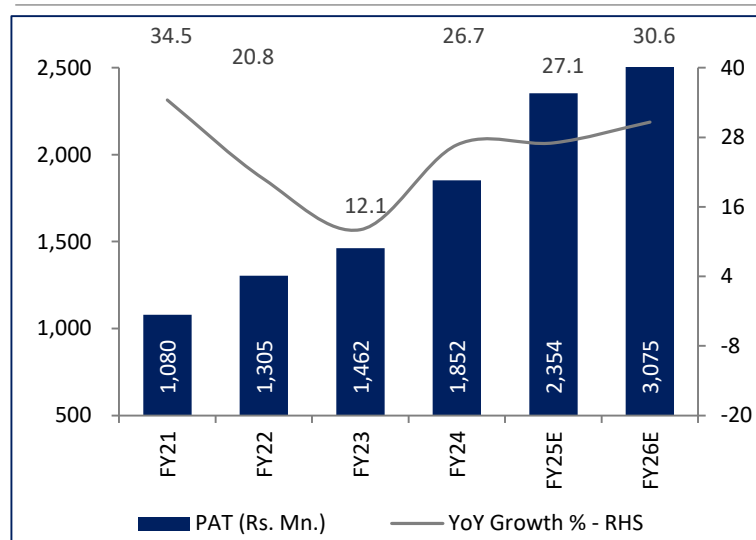
Source: Company, CEBPL

EBITDA (Rs. Mn) and Margin Trend



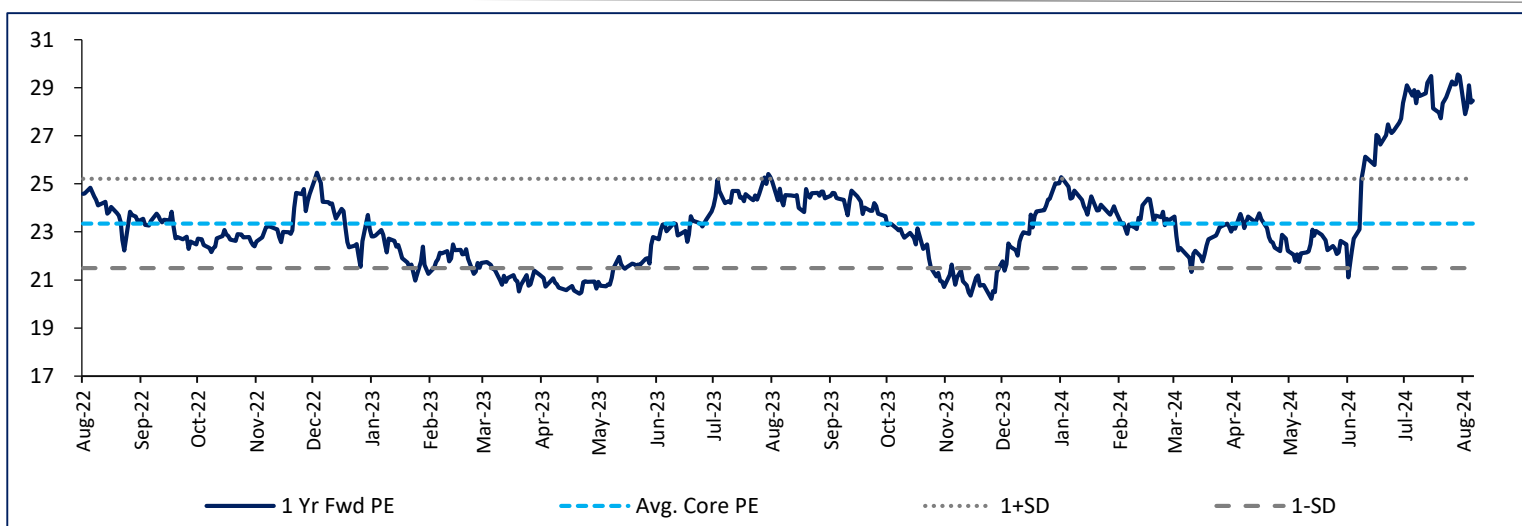
Source: Company, CEBPL

PAT (Rs. Mn.) Annual Trend



Source: Company, CEBPL

1 Year Forward PE (x) band



Source: Company, CEBPL

Income statement (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Revenue	19,890	23,460	28,114	34,300	40,196
YoY growth (%)	28.4	17.9	19.8	22.0	17.2
Gross profit	11,249	13,286	15,939	19,036	22,429
EBITDA	3,336	3,848	4,799	6,174	7,436
YoY growth (%)	22.6	15.3	24.7	28.7	20.4
EBITDA Margin (%)	16.8	16.4	17.1	18.0	18.5
Depreciation	1,197	1,301	1,495	1,902	2,173
EBIT	2,139	2,547	3,304	4,271	5,264
Interest expense	510	615	770	1,081	1,091
Other Income	155	101	24	28	32
RPAT	1,319	1,483	1,870	2,354	3,075
Adjusted PAT	1,305	1,462	1,852	2,354	3,075
YoY growth (%)	20.8	12.1	26.7	27.1	30.6
EPS (Rs)	25	28	35	44	58
NOPAT	1,582	1,859	2,416	3,123	3,849

Balance sheet (Consolidated in INR Mn.)

Particular	FY22	FY23	FY24	FY25E	FY26E
Net worth	10,234	11,679	13,474	15,705	18,660
Minority Interest	119	140	159	159	159
Deferred tax	642	689	692	692	692
Total debt	7,465	8,042	8,907	10,807	10,907
Other liabilities & provisions	712	542	540	540	540
Total Net Worth & liabilities	19,171	21,093	23,772	27,904	30,958
Net Fixed Assets	12,394	13,936	15,840	17,937	18,965
Capital Work in progress	1,224	757	835	835	835
Investments	105	105	400	400	400
Cash & bank balance	509	623	640	273	748
Loans & Advances & other assets	536	687	857	943	1,037
Net Current Assets	4,912	5,608	5,840	7,788	9,721
Total Assets	19,171	21,093	23,772	27,904	30,958
Capital Employed	17,698	19,722	22,381	26,512	29,566
Invested Capital	17,308	19,239	21,900	26,398	28,977
Net Debt	6,955	7,419	8,267	10,533	10,158
FCFF	(693)	197	263	(1,064)	1,586

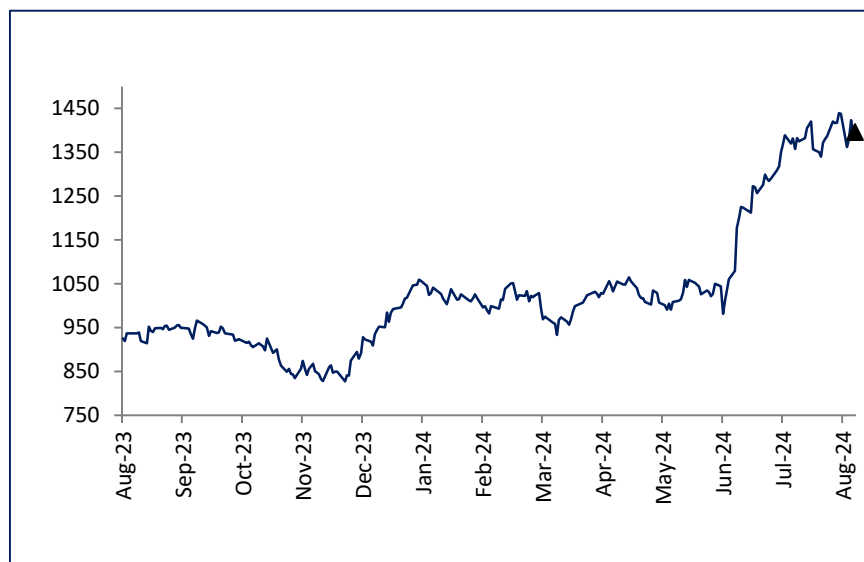
Source: Company, CEBPL

Cash Flows (INR Mn.)	FY22	FY23	FY24	FY25E	FY26E
CFO	1,978	2,572	3,740	2,936	4,786
Capex	(2,670)	(2,375)	(3,477)	(4,000)	(3,200)
FCF	(693)	197	263	(1,064)	1,586
CFI	(2,553)	(2,409)	(3,683)	(4,000)	(3,200)
CFF	39	(586)	(459)	272	(1,537)

Ratio Analysis	FY22	FY23	FY24	FY25E	FY26E
Margin ratios (%)					
EBITDA Margin	16.8	16.4	17.1	18.0	18.5
PAT Margin	6.6	6.2	6.6	6.9	7.6
Performance Ratios (%)					
OCF/EBITDA (X)	0.6	0.7	0.8	0.5	0.6
OCF/IC	11.4	13.4	17.1	11.1	16.5
RoE	12.7	12.5	13.7	15.0	16.5
ROCE	12.1	12.9	14.8	16.1	17.8
RoIC(Post tax)	10.8	10.7	12.6	14.3	14.6
ROIC(Pre tax)	14.6	14.7	17.2	19.5	19.9
Turnover Ratios (days)					
Inventory	51	58	54	59	60
Debtors	75	67	60	71	72
Payables	49	46	46	50	51
Cash Conversion Cycle	81	78	68	80	81
Financial Stability ratios (x)					
Net debt to Equity	0.7	0.6	0.6	0.7	0.5
Net debt to EBITDA	2.1	1.9	1.7	1.7	1.4
Interest Cover	4.2	4.1	4.3	4.0	4.8
Valuation metrics					
Fully diluted shares (mn)	52	53	53	53	53
Price (Rs)	1396	1396	1396	1396	1396
Market Cap (Rs. Mn)	72,786	73,866	74,418	74,418	74,418
PE (x)	56	51	40	32	24
EV (Rs.mn)	79,861	81,426	82,844	85,110	84,735
EV/EBITDA (x)	24	21	17	14	11
Book value (Rs/share)	196	221	253	295	350
Price to BV (x)	7.1	6.3	5.5	4.7	4.0
EV/OCF (x)	40	32	22	29	18

Source: Company, CEBPL

Historical recommendations and target price: Sansera Engineering



Sansera Engineering

1. 06-03-2023	OUTPERFORM,	Target Price 940
2. 23-05-2023	OUTPERFORM,	Target Price 958
3. 02-08-2023	ADD,	Target Price 1,064
4. 10-11-2023	OUTPERFORM,	Target Price 1,030
5. 14-02-2024	OUTPERFORM,	Target Price 1,200
6. 18-05-2024	BUY,	Target Price 1,205
7. 12-08-2024	BUY,	Target Price 1,557

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BUY	The security is expected to generate greater than 5% to less than 25% returns over the next 12 months
REDUCE	The security expected to show downside or upside returns by 0% to 5% over the next 12 months
SELL	The security expected to show Below 0% next 12 months

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