Arihant Capital
Generating Wealth

Q2FY25 - Result Update
13th November 2024

Sansera Engineering Ltd

Positive momentum in export in FY25

CMP: INR 1,481

Rating: Accumulate

Target Price: INR 1,698

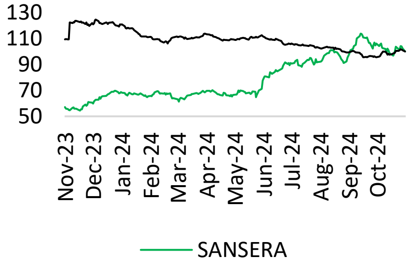
Stock Info	
BSE	543358
NSE	SANSERA
Bloomberg	SANSERA IN
Sector	Automobile & Ancillaries
Face Value (INR)	2
Equity Capital (INR Mn)	108
Mkt Cap (INR Mn)	91,120
52w H/L (INR)	1757 / 821
Avg Yearly Vol (in 000')	17.81

Shareholding Pattern %
(As on Sept, 2024)

Promoters	34.78
DIIs	32.56
FIIs	19.51
Others	13.15

Stock Performance (%)	1m	3m	12m
Sansera	-8.02	6.04	70.51
Nifty	-4.3	-1.9	22.3

Sansera Vs Nifty



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Sansera engineering reported margin stable; Revenue below estimate led by decline in non-auto segment. Consolidated revenue from operations grew by +10% YoY/2.6% QoQ stood at INR 7,634 mn in Q2FY25 below our estimate of INR 8,238 mn. Non-auto business declined 20% YoY due to weaker off-road and agriculture sectors, while a large aerospace customer faced headwinds, expected to recover gradually. Revenue Mix: India 69.9%, Europe 17.8%, USA 8.3% and Other Foreign Countries 4.0%.Segments: Auto-ICE 74.8%, Auto-Tech Agnostic & xEV 16.1% and Non-auto 9.1%. EBITDA for the quarter stood at INR 1,331 Mn below our estimate of INR 1,442 Mn registered growth of 13% YoY/ +4.4% QoQ. The company's EBITDA margin is up by 44bps YoY/+29bps QoQ to 17.4%. (Our estimate of Margin is 17.5%). Net profit grew by 8.6% YoY/up 2.9% QoQ of INR 516 Mn in Q2FY25 below our estimate of INR 590 Mn. Contribution of top 5 customers has reduced from 48.0% in H1FY24 to 46.1% in H1FY25 .In H1FY25, the company invested INR 2,937 Mn towards capex. New orders of INR 3.2 bn, with a strong INR 20 bn diversified orderbook maturing in 3 years.

Investment Rationale

Decline in Aerospace segment led by delay in order: The aerospace sector faced challenges due to headwinds from a major customer, causing delays in order execution. However, demand remains strong, driven by robust air traffic growth and a significant backlog in aircraft orders, exacerbated by recent underproduction. With Boeing's strike ending, the sector is expected to return to its growth trajectory. Additionally, a strategic MOU with Dynamic Technologies will allow to leverage expertise in producing high-precision parts for Airbus A220 aircraft door assemblies, further boosting aerospace business. aerospace customer also faced some Headwinds which is now expected to recover gradually. A key U.S. customer expects a 15-20% de-growth this year, aligning with market expectations. However, strong growth is anticipated in aerospace, defense, and agriculture sectors, with overall Non-Auto business projected to grow 35-40% by Q1FY2. Performance improvements are expected in Q4, with full recovery anticipated by then.

Aim to reduce of debt: The company has successfully raised INR 12,000 Mn through a QIP. Of this, INR 7000 Mn will be used to repay existing debt, with the process already underway and expected to be completed by March. This debt reduction is projected to lower interest costs by ~INR 550 Mn annually.

Positive momentum in Export business: In the ICE segment, the 2w business has shown strong growth, while the PV segment experienced a decline, both domestically and in exports, with exports showing a slightly higher drop. Despite this, business expansion with Tata Motors has been successful, and growth has continued with key customers like Bajaj, HMSI, and TVS. Additionally, a new development project has been secured with Ford Motor Company for a connecting rod, primarily for export. The positive momentum is expected to continue into this quarter.

Outlook and valuation

We are projecting a revenue CAGR of 18% over FY25-FY27E and an EBITDA margin of 17.4%/17.8%/19.3% in FY25E/FY26E/FY27E, driving an EPS CAGR of 30%. We also anticipate ROE/ROCE pre-tax to increase from 12%/16.2%/18.4% and 11.7%/14.3%/17.5% in FY25E/FY26E/FY27E respectively. Considering the decent growth and ROE/ROCE expansion. **We value SEL at 21x FY27E EPS (~INR 81) to arrive at a target price of INR 1,698(Earlier TP INR 1,511).** However, we believe that margins will improve due to a higher product mix, cost-improvement initiatives, and better efficiency. The company implements multiple levers, including cost improvement and volume expansion, which should materialize over time. The company is repaying INR 7,000 mn in loans, which will reduce finance costs by INR 550 mn annually. **We upgrade our rating to an Accumulate from Hold earlier on the stock.**

Exhibit 1 : Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoCE (%)	P/E (x)
FY24	28,114	4,799	1,858	34.8	17.1%	11.83%	42.5
FY25E	32,366	5,625	2,542	47.7	17.4%	11.74%	31.0
FY26E	38,236	6,819	3,113	58.0	17.8%	14.31%	25.5
FY27E	45,178	8,745	4,349	80.9	19.4%	17.56%	18.3

Source: Arihant Research, Company Filings

Exhibit 2 : Q2FY25 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INRm)	**Q2FY25**	**Q1FY25**	**Q2FY24**	**QoQ%**	**YoY%**
Net Sales	7,634	7,439	7,458	2.6%	2.3%
Cost of material consumed	3,283	3,318	3,120	-1.1%	5.2%
Changes in inventories	(159)	(276)	73		
COGS	3,124	3,042	3,193	2.7%	-2.2%
GP	4,510	4,397	4,265	2.6%	5.7%
Employees benefits expense	1,101	1,068	999	3.0%	10.1%
Other expenditure	2,078	2,054	1,996	1.2%	4.1%
EBITDA	1,331	1,275	1,270	4.4%	4.8%
Depreciation	425	400	397	6.4%	7.1%
EBIT	906	876	873	3.4%	3.7%
Other Income	38.6	4.0	(3)	870.4%	-1418.1%
Finance costs	230	193	225	19.2%	1.8%
PBT	715	687	645	4.0%	10.8%
Share of uet profit of associates accounted for using the equity method, met of ax	(3)	(1)			
Current Tax	180	174	221	3.1%	-18.6%
Deferred tax	15	10	(37)	-	-
Tax	195	185	185	5.7%	5.8%
Adjusted PAT	516	501	460	2.9%	12.1%
Non-controling interests	9.6	5.7	4.0	70.0%	138.7%
Reported PAT	506.5	495.8	456.3	2.2%	11.0%
EPS	9.4	9.2	8.6	1.5%	9.1%
Margins	**Q2FY25**	**Q1FY25**	**Q2FY24**	**QoQ%**	**YoY%**
Gross margins	40.9%	40.9%	42.8%	3Bps	-189Bps
EBITDA	17.44%	17.14%	17.03%	29Bps	40Bps
Adjusted PAT	6.76%	6.74%	6.2%	2Bps	59Bps
Tax Rate	27.32%	26.89%	28.6%	43Bps	-131Bps
Cost Analysis					
RM/Net Sales	43.00%	44.61%	41.83%	-161Bps	117Bps
Other Exp/Net Sales	27.22%	27.61%	26.75%	-39Bps	47Bps
Staff cost/Net sales	14.42%	14.36%	13.40%	6Bps	102Bps

By Geographies- Sales mix (%)	Q2FY25	Q1FY25	Q4FY24	Q3FY24	Q4FY23	FY24	FY23
India	**69.90%**	**67.60%**	**66.80%**	**68.30%**	**68.30%**	**68.70%**	**71.60%**
Europe	17.80%	19.60%	19.70%	18.10%	18.10%	18.30%	17.60%
USA	8.30%	10.10%	9.90%	11.00%	11.00%	9.90%	7.20%
Other Foreign Countries	4.00%	2.70%	3.60%	2.60%	2.60%	3.10%	3.60%
International	**30.10%**	**32.40%**	**33.20%**	**31.70%**	**31.70%**	**31.30%**	**28.40%**
Exports from India	25.50%	27.40%	28.10%	25.00%	25.00%	23.10%	21.70%
Sweden Sales	4.60%	5.00%	5.10%	6.70%	6.70%	5.60%	6.70%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

Source: Arihant Research, Company Filings

Sansera Engineering Q2FY25-Conference Call Highlights

Margins will improve due to a higher product mix, cost-improvement initiatives, and better efficiency. The company implements multiple levers, including cost improvement and volume expansion, which should materialize over time. The company is repaying INR 7,000 mn in loans, which will reduce finance costs by INR 550 mn annually.

Aerospace Division: Aerospace is facing pressure due to headwinds from large customers, primarily due to delays. However, Q2 was strong regarding order inflows, with significant orders coming from both the auto and non-auto sectors. Increased customer demand, coupled with new customer specifications, is driving growth. Additionally, the company has expanded its forging and machining lines.

Despite the challenging environment, both international and domestic markets are showing resilience.

Interest costs: Higher due to increased debt and a discount on export credit; however, these costs will be offset by loan repayments following the QIP.

Debt and Capitalization: The company is in line with its asset capitalization at INR 425 mn.

Order Book: The total new orders secured in the quarter amounted to INR 3.2 bn, with a major increase in the non-auto and 2W sectors. The order book for new business stands strong at INR 20 bn, well diversified across segments, with orders expected to mature over the next 3 years.
Order Breakdown: INR 20,055 Mn, INR 5000 Mn from new business (INR 370 Mn from Agri, INR 40 Mn from Agri, 55% of from Semiconductors), INR 9000 Mn from Auto ICE. Geographic Distribution- 40% domestic and 60% export.

QIP: The company plans to use the proceeds from the QIP to repay debt and become debt-free. They are looking for expansion opportunities, including acquiring land for an EV project (55 acres already acquired acres of land in Harohalli, Karnataka). This will help boost the order book and manufacturing capabilities, including the establishment of a special process plant for aerospace and other sectors.

US : The company is also exploring plans for an assembly plant in the US and is closely monitoring policy shifts to take decisions accordingly. Capex in this regard is not expected to be very significant at this stage.

Technology Investment: The company has already invested in deep technology (MMFRC) and plans to maintain its focus on aluminum forging as part of its broader strategy. A new team with expertise in forging has been added.

Margins: Margins will improve due to a higher product mix, cost-improvement initiatives, and better efficiency. The company implements multiple levers, including cost improvement and volume expansion, which should materialize over time.

Capex Guidance: The company plans to invest between INR 4200-4500 Mn for FY25, excluding land acquisition costs. They are adjusting for the current macroeconomic conditions, but the overall capex plan remains in line with expectations, including the requirement for some additional equipment.

Non-Auto Export: Export markets are expected to yield higher margins, with the company optimizing its technological processes. Some of the positive momentum from the Swedish facility's automation projects should contribute to growth.

Aerospace & Defence: The company expects INR 3500 Mn in revenue from aerospace and defense over the next few years. The order book is expanding, and labor issues with a major OEM have been resolved. External factors are playing a role in supporting this growth, with new sectors being added at the new facility.

Non-Auto Side: The supply chain is supporting growth in sectors like off-road, aerospace, and semiconductors. The fourth quarter has seen improvements, and production is expected to return to normal by Q1FY26. Off-road, aerospace, and agriculture sectors are growing, and the company expects 35-40% growth in the coming years.

PV Sector: Headwinds in both domestic and international markets due to unfavorable macroeconomic conditions are expected to impact growth from Q3 FY25. However, growth is expected to return by Q1 FY26.

Sweden: EBITDA improved by ~6% in Q1 FY25, driven by new orders and price revisions. The company expects to reach double-digit EBITDA improvements in Q2 and sustain 10-12% by the end of FY25.

2W:32% of the 2W business comes from international markets, with 68% from domestic markets. The 2W segment performed reasonably well, outperforming industry growth despite headwinds in PV and aerospace.

New Programs: Some sectors, particularly off-road, have seen declines of around 25%. However, aerospace has gained significant momentum, expected to outperform the industry by 8-10% in Q4.

RM: Steel prices have been stable with minimal impact from scrap rates. Pass-through adjustments are being implemented to manage costs.

Aerospace Dynamics: The company has secured supply for 8-20 aerospace programs and is involved in critical machining for several programs. The annual revenue from these programs is INR 530 Mn, with potential for higher earnings as the programs mature. The aerospace order book is expected to expand further, contributing 4% of the total revenue share.

Aluminum Forgings: By the end of FY25, the company expects to have 8 press operations in place. The overall order book stands at INR 3,500 mn, with newer programs in motorcycles and PV EV cars expected to make up 80-85% of the order volume by FY26.

ICE: The 2W segment has grown well, while PV (both domestic and export) has seen some de-growth. The Tata Motors business is in line with growth expectations, and exports have shown recovery, outperforming the industry by 8-10%.

Geographic Expansion: The company is focusing on North America, Latin America, and China+ markets, where conditions are improving QoQ.

Debt Reduction: The company is repaying INR 7,000 mn in loans, which will reduce finance costs by INR 550 mn annually.

Story in charts (INR in Mn)

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

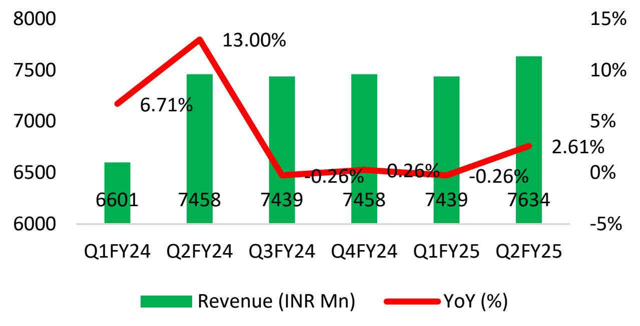


Exhibit 5: Stable margin led by better export business

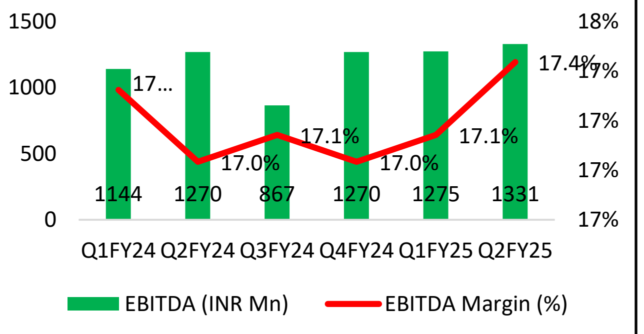


Exhibit 6: Strong profit growth to be seen on back of strong order book

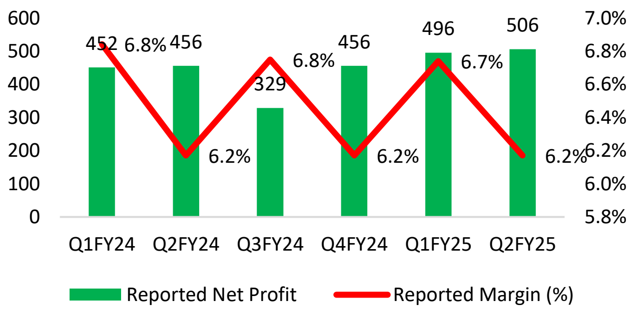


Exhibit 6: Visible growth in the revenue contribution from xEV segment

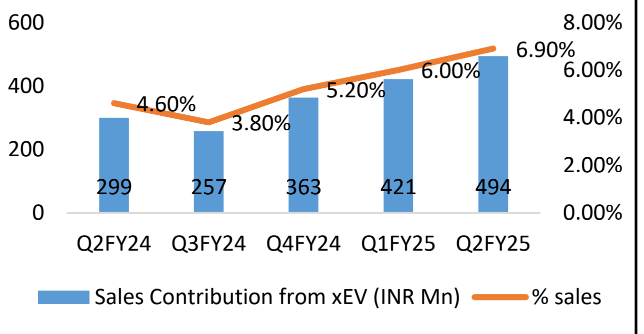


Exhibit 7: Strong Orderbook driven by both Domestic

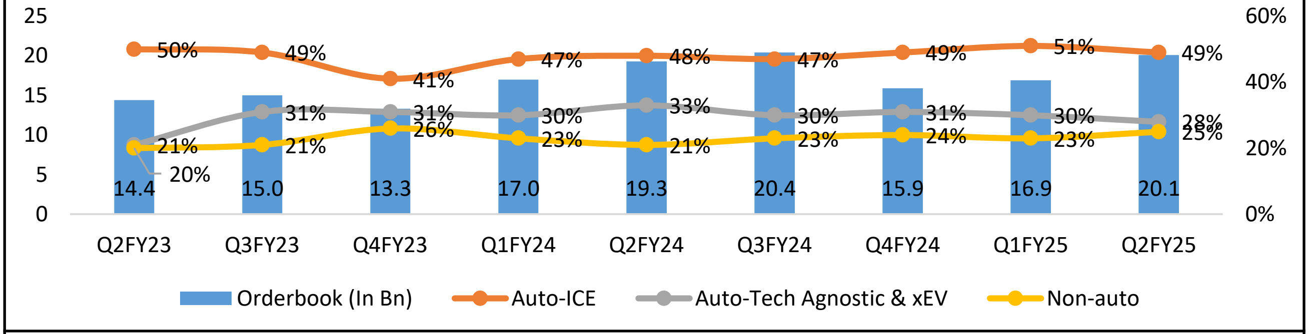
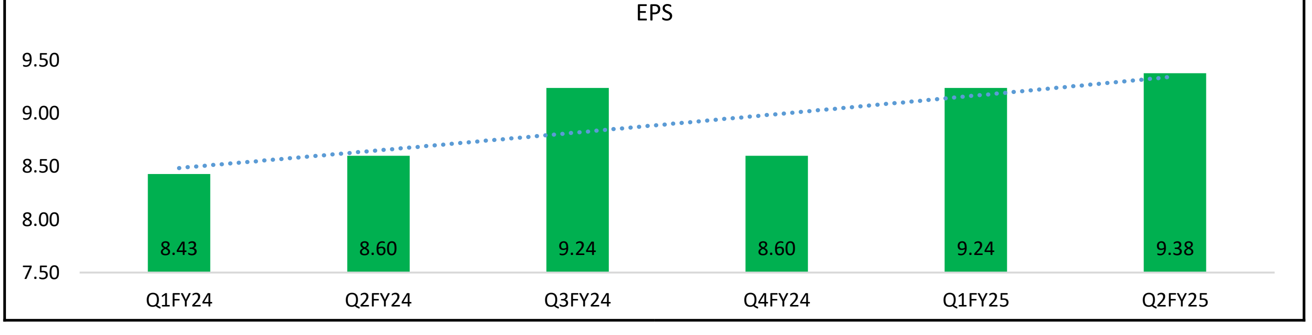


Exhibit 8: Improving earning trends



Source: Company, Arihant Research

Key Financials

Income Statement Consolidated (INR Mn)				
Year End-March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Revenues	28,114	32,366	38,236	45,178
Change (%)	19.8%	15.1%	18.1%	18.2%
Cost of Goods Sold (COGS)	12,175	13,596	17,111	20,171
Gross Profit	**15,939**	**18,769**	**21,125**	**25,007**
Employee costs	3,798	4,773	5,135	6,026
Other expenses	7,343	8,371	9,170	10,236
Total Expenses	**23,316**	**26,741**	**31,416**	**36,433**
EBITDA	**4,799**	**5,625**	**6,819**	**8,745**
EBITDA Margin	**17.07%**	**17.38%**	**17.83%**	**19.36%**
Depreciation	1,495	2,206	2,619	2,903
EBIT	**3304**	**3419**	**4200**	**5842**
Interest	770	13	30	30
Other Income	24	32	38	45
PBT	**2,558**	**3,438**	**4,208**	**5,857**
Exceptional Items	-	-	-	-
PBT after exceptional Items	**2,558**	**3,438**	**4,208**	**5,857**
Tax	687	878	1,077	1,490
Rate (%)	*26.9%*	*25.5%*	*25.6%*	*25.4%*
PAT	**1,858**	**2,542**	**3,113**	**4,349**
PAT Margin (%)	6.6%	7.9%	8.1%	9.6%

Balance Sheet Consolidated (INR Mn)				
Year End-March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Sources of Funds				
Share Capital	107	108	108	108
Reserves & Surplus	13,367	15,909	19,021	23,371
(b) Instruments entirely equity in nature/Fund Raised	-	5,000.00	-	-
(d)non-controling intrest	159	159.24	159.24	159.24
Net Worth	**13,633**	**21,176**	**19,289**	**23,638**
Loan Funds	**8,011**	**121**	**121**	**121**
MI, Deferred Tax & other Liabilities	692	692	831	831
Total Equity and Liabilities	**27,927**	**29,119**	**29,356**	**33,271**
Application of Funds				
Gross Block	**21,951**	**25,951**	**29,101**	**32,251**
Less: Depreciation	**7,326**	**9,532**	**12,151**	**15,053**
Net Block	**14,625**	**16,419**	**16,950**	**17,198**
CWIP	**835**	**835**	**835**	**835**
Other Non-current Assets	**456**	**456**	**456**	**456**
Other Current Assets	**440.9**	**440.9**	**440.9**	**440.9**
Net Fixed Assets	**16,357**	**18,152**	**18,683**	**18,930**
Investments	**195**	**195**	**195**	**195**
Debtors	**4,622**	**4,046**	**4,036**	**5,522**
Inventories	**4,189**	**4,434**	**3,981**	**5,570**
Cash & Bank Balance	**486**	**514**	**683**	**1,276**
Loans & Advances & other CA	96	96	96	96
Total Current Assets	**9,995**	**9,691**	**9,397**	**13,065**
Current Liabilities	9,765	5,815	7,652	7,218
Provisions	43	43	43	43
Net Current Assets	**230**	**3,876**	**1,745**	**5,847**
Total Assets	**27,927**	**29,119**	**29,356**	**33,271**

Cash Flow Statement Consolidated (INR Mn)				
Year End-March	**FY24**	**FY25E**	**FY26E**	**FY27E**
PBT	**2,563**	**3,438**	**4,208**	**5,857**
Cash From Operating Activities	2,564	3,743	6,576	8,503
Tax	-654	-878	-1,077	-1,490
Net Cash From Operations	3,743	6,576	8,503	4,199
Capex	**-3,356**	**-4,000**	**-3,150**	**-3,150**
Cash From Investing	-3,683	-4,000	-3,150	-3,150
Borrowings	8,011	121	121	121
Finance cost paid	**770**	**13**	**30**	**30**
Div. (incl. buyback & taxes)	**-133**	**-189**	**-189**	**-189**
Cash From Financing	-80	-2,548	-5,184	-456
Net Increase/ Decrease in Cash	**-20**	**27**	**169**	**593**
Cash at the beginning of the year	**496**	**486**	**514**	**683**
Cash at the end of the year	486	514	683	1,276

Key Ratios				
Year End-March	**FY24**	**FY25E**	**FY26E**	**FY27E**
Per share (INR)				
EPS	34.8	47.7	58.0	80.9
BVPS	254	392	357	438
Valuation (x)				
P/E	42.5	31.0	25.5	18.3
P/BV	5.8	3.8	4.1	3.4
Return ratio (%)				
EBIDTA Margin	17.07%	17.38%	17.83%	19.36%
PAT Margin	6.61%	7.85%	8.14%	9.63%
ROE - Pre tax	13.76%	12.09%	16.23%	18.48%
ROCE - Pre tax	11.83%	11.74%	14.31%	17.56%
Leverage Ratio (%)				
Total D/E	0.59	0.01	0.01	0.01
Turnover Ratios				
Asset Turnover (x)	2.8	3.3	4.1	3.5
Inventory Days	54	50	38	45
Receivable Days	60	45	38	44
Payable days	42	56	64	50

Source: Arihant Research, Company Filings

Key Financials

Cash Flow Statement Consolidated (INR Mn)

Year End-March	FY24	FY25E	FY26E	FY27E
PBT	**2,563**	**3,202**	**3,947**	**4,678**
Cash From Operating Activities	2,564	3,743	5,599	5,057
Tax	(654)	(737)	(969)	(1,157)
Net Cash From Operations	3,743	5,599	5,057	6,046
Capex	**(3,356)**	**(4,000)**	**(3,500)**	**(3,500)**
Cash From Investing	(3,683)	(4,000)	(3,500)	(3,500)
Borrowings	8,011	7,121	7,121	7,121
Finance cost paid	**770**	**783**	**855**	**926**
Div. (incl. buyback & taxes)	**(133)**	**(188)**	**(188)**	**(188)**
Cash From Financing	(80)	(1,440)	(760)	(832)
Net Increase/ Decrease in Cash	**-20**	**159**	**797**	**1715**
Cash at the beginning of the year	**496**	**486**	**645**	**1,442**
Cash at the end of the year	486	645	1,442	3,157

Key Ratios

Year End-March	FY24	FY25E	FY26E	FY27E
Per share (INR)				
EPS	34.8	46.0	55.5	65.7
BVPS	254	297	352	418
Valuation (x)				
P/E	40.0	30.3	25.1	21.2
P/BV	5.5	4.7	4.0	3.3
Return ratio (%)				
EBIDTA Margin	17.07%	17.17%	17.53%	17.51%
PAT Margin	6.61%	7.32%	7.44%	7.34%
ROE - Pre tax	13.76%	15.48%	15.77%	15.73%
ROCE - Pre tax	11.83%	13.00%	13.90%	14.30%
Leverage Ratio (%)				
Total D/E	0.59	0.45	0.38	0.32
Turnover Ratios				
Asset Turnover (x)	2.8	3.2	3.0	2.8
Inventory Days	54	50	50	50
Receivable Days	60	50	50	50
Payable days	42	50	50	50

Source: Arihant 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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