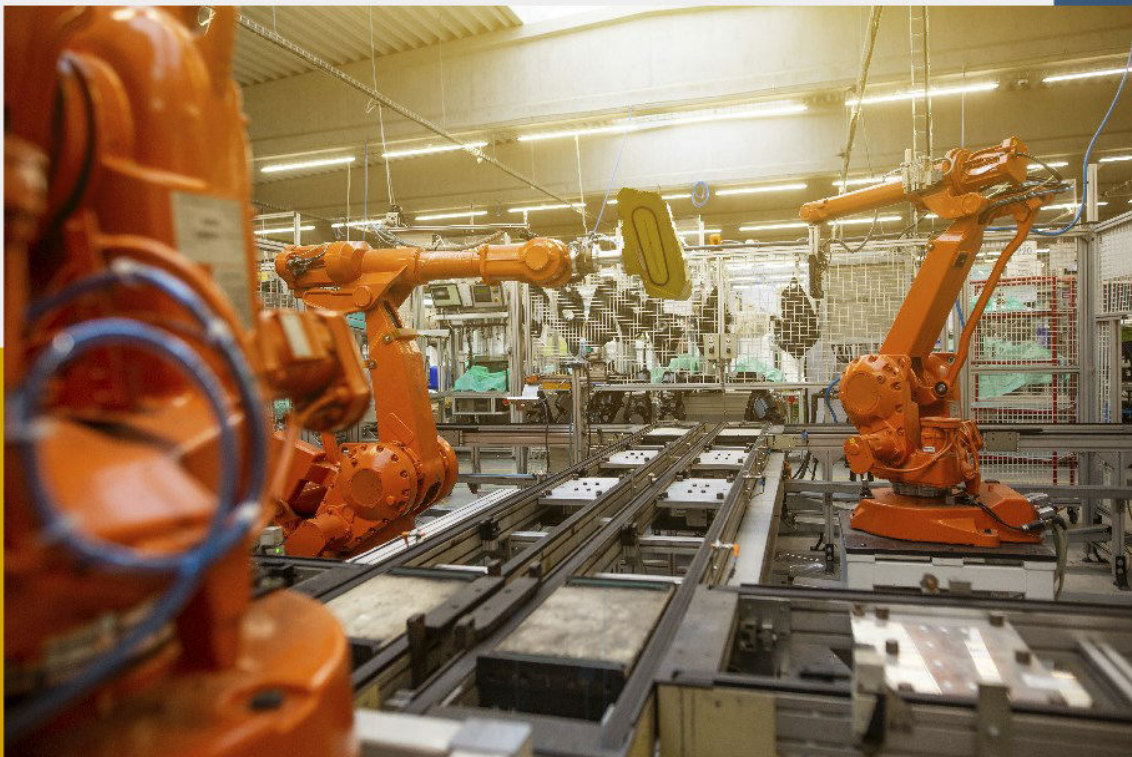


SANSERA

ENGINEERING



SHINING STAR SERIES

Investment Thesis

- ⇒ **Strong order book provides revenue visibility**
- ⇒ **Auto-Tech Agnostic, xEV, and Non-Auto products to help reduce portfolio risk and propel future growth**
- ⇒ **Strong core portfolio to take advantage of the premiumization of products and the evolving regulatory landscape**
- ⇒ **Investing in cutting-edge platforms of the modern era**

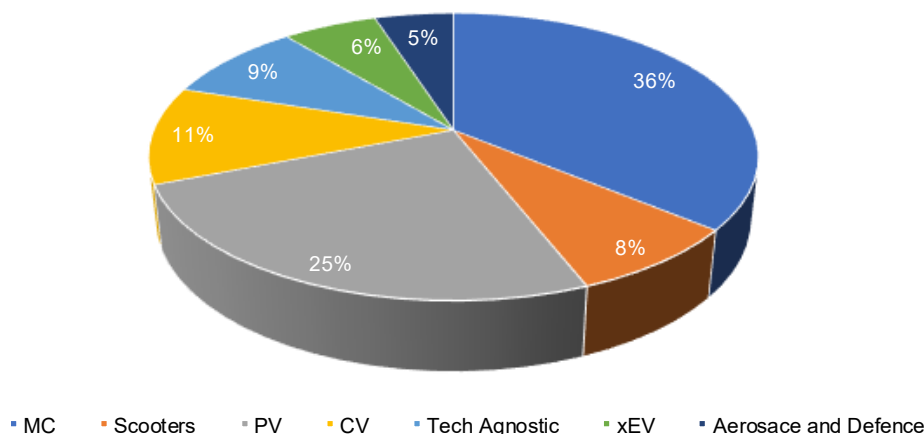
Company Background

Incorporated in 1981 and headquartered in Bengaluru, Sansera Engineering (SEL) 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 arms for LMVs 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. Sansera 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. Lastly, the company's critical components capacity utilization currently stands at 67-68%, signalling room for further operational efficiency within the organization.

The company has added multiple customers which has resulted in a diversified customer base, thereby lowering the contribution from top customers – from 59% in FY21 to 48% in H1FY24. Within India, it has maintained 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.

Over the past decade, the company's revenue from operations has grown at a 16% CAGR to ~Rs 2,346 crores; EBITDA has grown at a 15% CAGR to ~Rs. 385 crores and PAT has grown at a 20% CAGR to Rs. 148 crores. In 9MFY24, the company's sales mix by end-user segment in the portfolio stood at: 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.

9MFY24: End user segment-wise revenue



Source: Company Reports, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook Positive

Stock

CMP (Rs.)	1,007
Target Price (Rs.)	1,243
BSE code	543358
NSE Symbol	SANSERA
Bloomberg	SANSERA IN
Reuters	SASE.BO

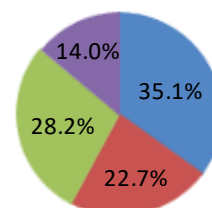
Key Data

Nifty	22058
52 Week H/L (Rs.)	1,090 / 708
O/s Shares (Mn)	53.6
Market Cap (Bn)	53.2
Face Value (Rs.)	2

Average volume

3 months	186,230
6 months	171,800
1 year	149,450

Share Holding Pattern (%)



Promoters FII DII Others

Relative Price Chart



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Sansera Engineering Ltd.

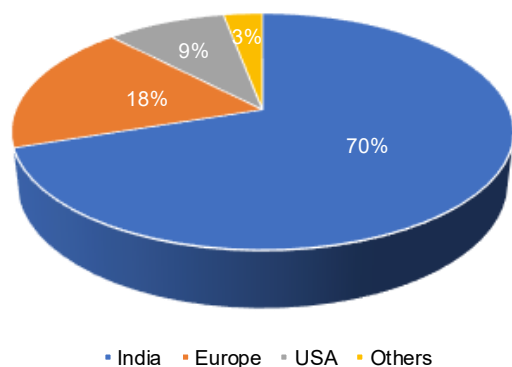
Product portfolio as on 31st December, 2023

Sansera Engineering Ltd.

Business Areas	Auto ICE	Auto- Tech Agnostic	Auto- xEV	Non-Auto
% of sales (9MFY24)	76.0%	7.3%	4.5%	12.2%
Products	2Ws: Roller RA, Integral CR, Crankshaft, Gear Shifter Fork, Balance Shaft PVs: Fractured CR, Split CR, Rocker Arm (DLC), GSF CVs: Fractured CR, Split CR, GSF	2W/ e-2W: Suspension Parts, Stem Comp Steering, Aluminium forged parts PV/ Hybrid/ B-EV: Steering parts, Tow hook, Braking System Component CVs: Chassis Components (Cabin Tilt Systems), Integral Crankshaft (Braking)	2W: Drive Train part, Rotar parts PV: Drive Train parts CV: Transmission parts, Spring Bracket, Differential Lock Hook	Aerospace and Defence: Seating parts, Aerostructure parts, Door assembly, Lighting parts, Cargo systems Off road: Fractured and Split CR, GSF, Crankshaft Agriculture: Fractured CR, Cam Shaft, Pump Barrel Others: Fractured and Split CR, Integral Crankshaft, Pump Barrel
Key Trends	Expected to benefit due to consolidation of sourcing by OEMs and trends of China+1 & Europe+1	High focus on light weighting	Expected to grow rapidly with the successful adoption of EVs.	Expected to benefit with indigenization focus on the defense side. Strong orderbook of aerospace OEMs to translate into healthy order flow.

Source: Company Reports, BP Equities Research

9MFY24: Geography-wise revenue



Sansera marquee customer relationships

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

Source: Company Reports, BP Equities Research

Sansera Engineering Ltd.

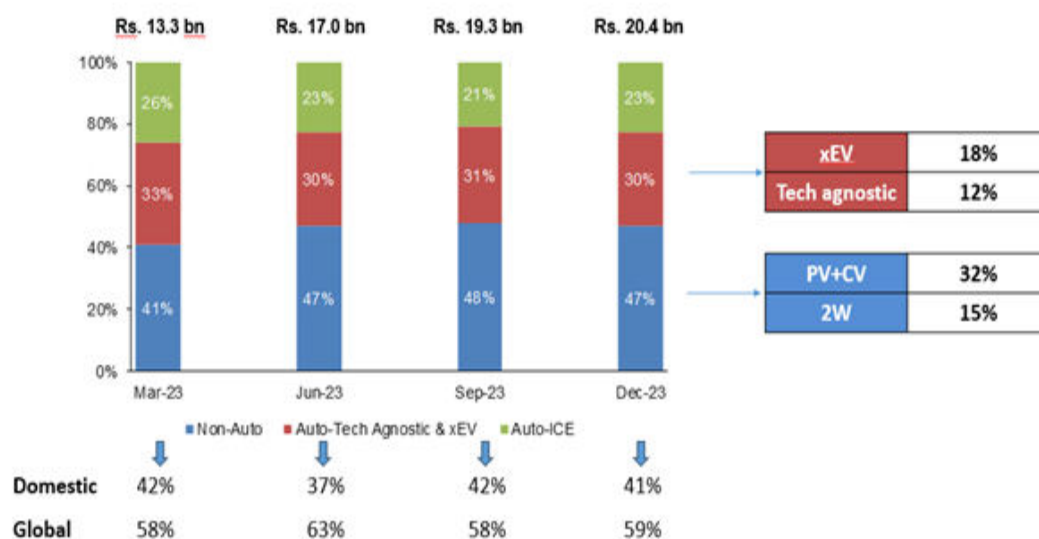
Investment Rationale

Strong order book provides revenue visibility

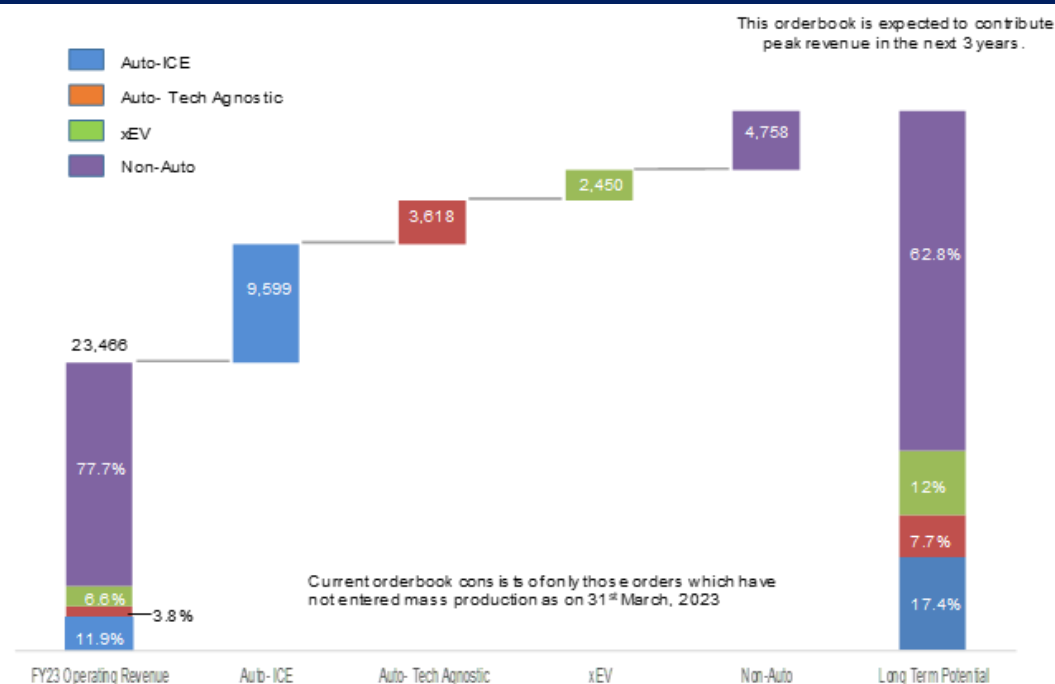
The company has seen a notable increase in its order book, especially in sectors beyond traditional internal combustion engine (ICE) components. By December 2023, the company's new orders, boasting a peak annual revenue rate of Rs 2,040 crores, indicate a significant shift with approximately 53% of the total share stemming from non-ICE segments. This breakdown includes 12% from Tech Agnostic Auto, 18% from Electric Vehicles (EV), and 23% from Non-Auto sectors. Conversely, 47% of the new orders during this period are attributed to ICE components. Noteworthy is the fact that the relatively susceptible 2W-ICE segment, facing the highest risk from EV disruption, comprises only 15% of the total order book.

“Sansera boasts of fungible production lines - Interchangeable capacity across sectors (auto & non-auto) and various product lines therein.”

Diverse order book (peak annual revenues for new business)



Peak long term revenue bifurcation



Source: Company Reports, BP Equities Research

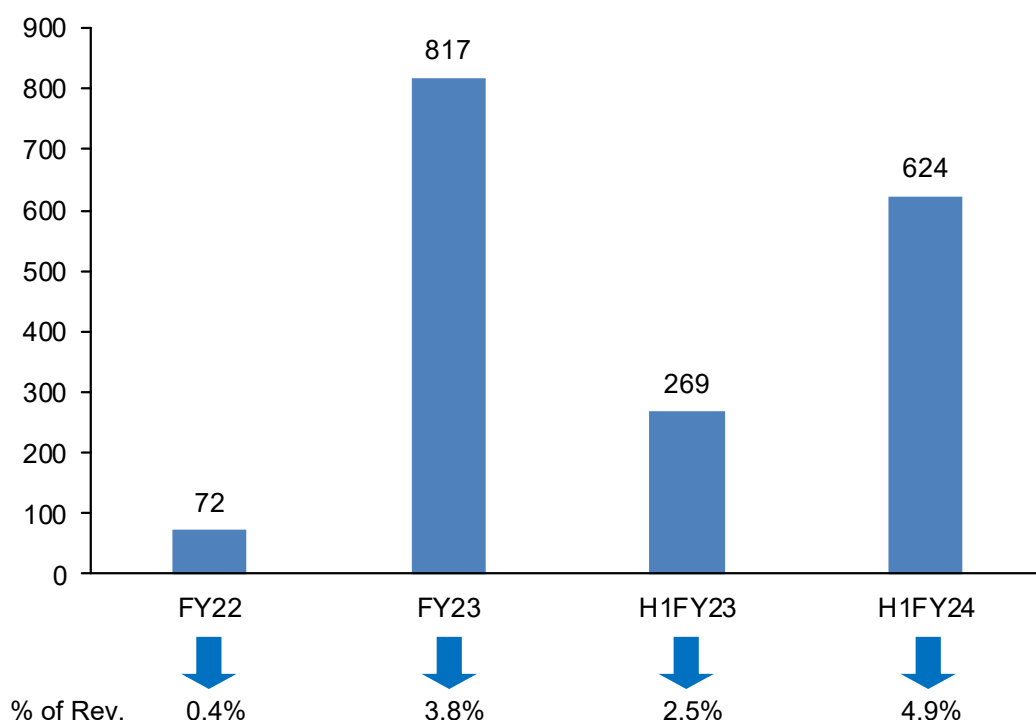
Sansera Engineering Ltd.

Auto-Tech Agnostic, xEV, and Non-Auto products to help reduce portfolio risk and propel future growth

The shift in the composition of the company's order book signifies a strategic initiative to reduce its dependence on ICE components in forthcoming years. The management's objective is to diminish ICE reliance from 76% of the sales mix in H1FY24 to 60% within the foreseeable future. This decrease will be balanced by an expected uptick in the share of Tech Agnostic & xEV Auto components and Non-Auto products to 20% each. Presently, Aerospace contributes approximately 4% to the company's overall revenue, boasting a dedicated line for Aerospace and Defence, which is presently fully booked. In response to the robust inflow of orders, the company has established a new Greenfield facility in Jigani Hobli, Bengaluru, allocating two-thirds of the space for Aerospace and one-third for the Defense segment. Constructed at an approximate cost of Rs. 130 crores on a 10-acre plot (utilizing up to 4.5 acres thus far), the facility has been operational since the first quarter of FY24. At optimal capacity, the facility is estimated to yield approximately Rs. 350 crores in revenues (with Rs. 91 crores from the aerospace division in FY23). With a peak annual revenue order book of Rs. 121 crores for new aerospace businesses, Aerospace and Defence are anticipated to contribute over 10% to the consolidated revenue, marking a substantial increase from the 4% reported in H1FY24.

“With an order book comprising peak annual revenues of Rs. 121 crores 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.”

Robust growth of xEV segment (Rs. in Mn)



Source: Company Reports, BP Equities Research

Sansera Engineering Ltd.

Strong core portfolio to take advantage of the premiumization of products and the evolving regulatory landscape

Sansera's versatility is evident in its transformation from serving a single client and product segment to diversifying into various sectors, including aerospace, defence and electric vehicles (EVs). It stands as a crucial supplier of Connecting Rods, Rocker Arm, and Crankshaft to both domestic and international OEMs. Leveraging its design and engineering prowess, the company has expanded into domains such as Aerospace, Defence, and EVs. Moreover, Sansera is actively introducing new Tech Agnostic Auto components like Steering components, Rotors shafts, and Transmission components to diminish its reliance on IC Engine components and enhance its market share in the Automobile segment. With the industry trending towards lightweight vehicles, Sansera foresees an uptick in the utilization of aluminium forging and has subsequently completed construction work at new aluminium forging facility at Bidadi with commercial production set to begin from Q2FY25. The company will manufacture high margin large connecting rods and other large components for Agri and Non-Auto Segments from the Bidadi plant. Positioned strategically in the EV sector, Sansera has secured orders from multiple OEMs, underscoring its proactive stance in the ever-evolving automotive arena.

“Key industry trends -

- **Faster engine upgrades;**
- **Rising outsourcing trend from OEMs, thereby creating a dependency for supply;**
- **China+1 and Europe +1 themes in play;**
- **High focus on light weighting.”**

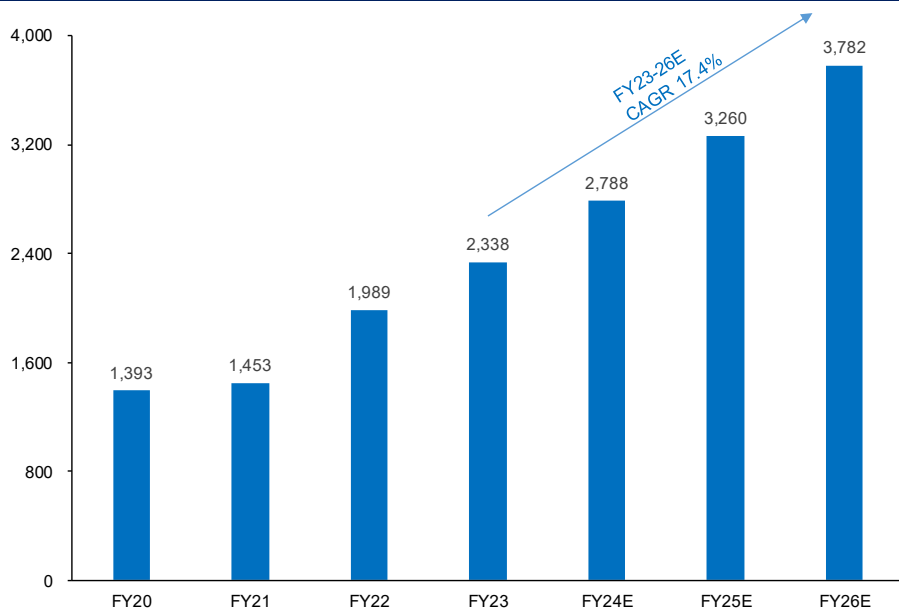
Investing in cutting edge platforms of the modern era

Sansera recently finalized a definitive agreement with MMRFIC Technology Pvt. Ltd., entailing a strategic investment of Rs. 20 crores through Compulsory Convertible Preference Shares (CCPS). This investment grants Sansera the opportunity to augment its stake from 21% to 51% according to a predetermined valuation formula. MMRFIC, headquartered in Bengaluru, specializes in Research, Design, and Manufacturing, focusing on developing sub-systems for next-generation radars using machine learning and AI, along with mm-wave sensors equipped with hybrid beam forming capabilities. The primary objective behind Sansera's strategic investment is to venture into the high technology sphere and gain access to a robust R&D and engineering team, thereby catering to key market segments such as Defence, Aerospace, Autonomous Driving Vehicles, and Security.

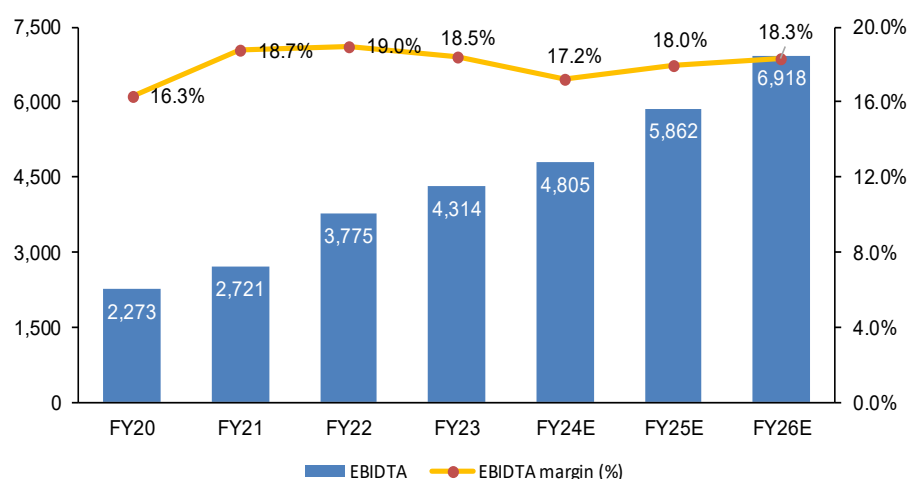
Sansera Engineering Ltd.

Financial Story in Charts

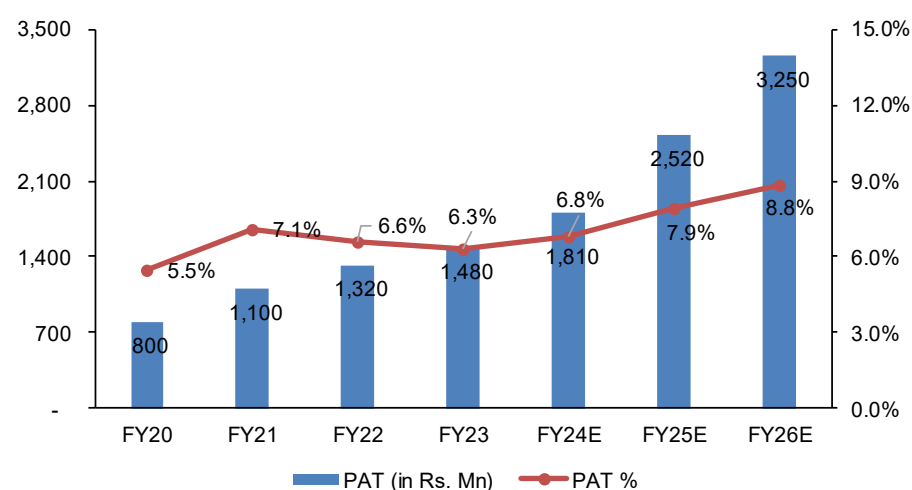
Healthy revenue trajectory (Rs. in Mn)



EBITDA margins to improve with rising efficiencies (Rs. in Mn)



Higher revenues & lower interest benefits PAT (Rs. in Mn)

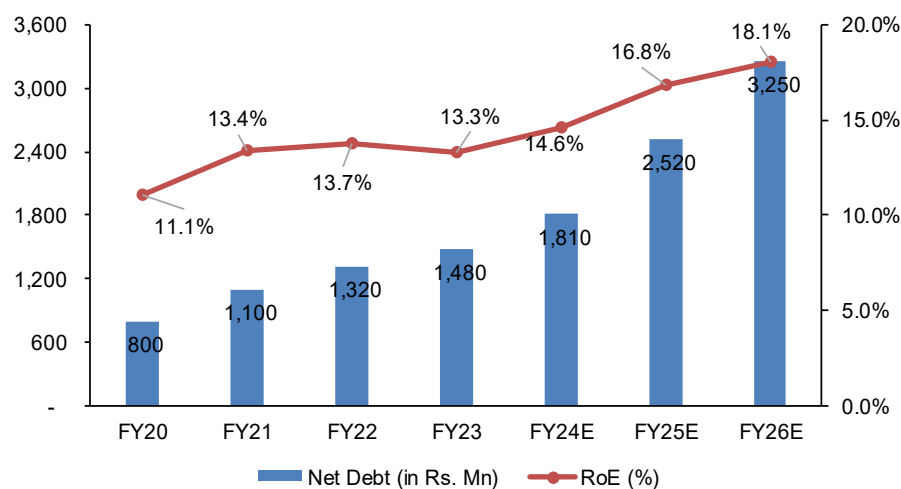


Source: Company Reports, BP Equities Research, Bloomberg Estimates

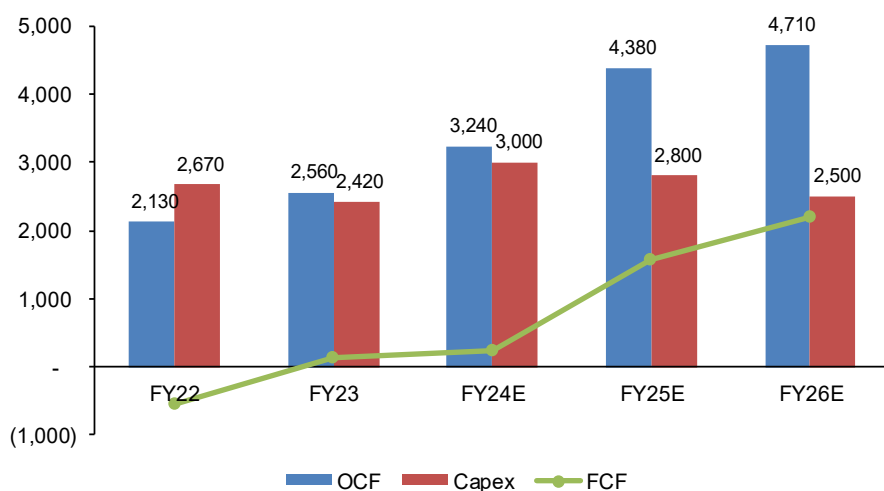
Sansera Engineering Ltd.

Financial Story in Charts

Debt reduction to underpin higher ROEs (Rs. in Mn)



Growing FCF post-Capex deduction from FY24 (Rs. in Mn)



Source: Company Reports, BP Equities Research, Bloomberg Estimates

Sansera Engineering Ltd.

Q3FY24 Performance & Concall Highlights

After reporting a muted growth in 2QFY24, Sansera reported a sharp pick-up in revenue growth in 3QFY24, on account of robust demand from domestic Auto industry both in Auto ICE as well as Auto Tech Agnostic products, ramp-up of its newly commissioned Aerospace and Defense plant as well as a 32%/27% YoY increase in international/domestic revenues, respectively. Sansera's revenue grew 27.9% YoY/up 2.9% QoQ to Rs. 713 crores, higher than market estimates of Rs. 702 crores. All the key geographies i.e., India, Europe, and the US reported recovery and grew 26%, 22% and 86% YoY, respectively. EBITDA margin improved 138bps YoY/down 5bps QoQ to 16.9%, in line with market estimates. EBITDA and net profit grew 39.2% YoY/up 2.6% QoQ and 54.7% YoY/up 4.7% QoQ to Rs. 120 crores and Rs. 48 crores, respectively. The company expects supply to a large aerospace company and a US EV OEM to start in the ongoing quarter.

Concall Highlights:

- The management notes that increased opportunities are emerging due to the increase of content and vehicles, particularly with global OEMs extending various ICE programs until 2032. Notably, the company witnessed favourable traction in its international business, driven by robust performance in North America, albeit offset by weaker results in Sweden.
- Regarding its 2W segment, the management reports higher sales, attributed to improved motorcycle volumes and a focus on premiumization. Projections indicate a double-digit volume growth expectation for the 2W industry in FY25. In terms of the ICE segment's vehicle sales mix, motorcycles constituted 37.1%, scooters 5.7%, PVs 21.9%, and CVs 10.7%.
- Additionally, the company highlights its aerospace and defense revenue, which accounted for 4.4% of total revenue in 3QFY24. The company indicated that growth in this sector has slowed due to a delay in orders from an American OEM, expected to commence in 4QFY24 with ramp-up anticipated in FY25. Forecasts suggest a robust growth trajectory of 40–50% for aerospace and defense in FY25, with peak utilization of aerospace facilities projected for FY27.
- The plans for commissioning a 4,000-ton press in FY25, primarily for heavy engines for clients such as Cummins and CNH, are underway, with 50% of the capacity earmarked for forging connecting rods.
- Net debt stood at Rs. 620 crores at the end of 3QFY24.
- The management expects full maturity of the order book by FY27, fuelled by premium motorcycle and PV orders.
- The company acknowledges that its Swedish business is encountering challenges due to the loss of market share from key customers. Anticipating subdued growth for FY25, as indicated by customer feedback, the company is actively exploring opportunities to streamline operations and reduce costs by sourcing components from India. Despite facing headwinds, the Swedish business has demonstrated resilience, with an EBITDA margin of 7.5% YTD, compared to 1% recorded in 3QFY24.
- Furthermore, the company highlights a promising order pipeline for Fitwell, despite the segment's performance being relatively flat this year. With expectations of a resurgence in 2W volumes, the company anticipates benefiting from operating leverage in the coming periods. The company is in talks with an international player for auto ICE components.
- Looking ahead, the company expects an asset turnover ratio of 1.5-1.6, following which it plans to initiate capital expenditure projects.
- Aluminium forging revenue reached Rs. 26 crores for 9MFY24, with pending orders amounting to approximately Rs. 250 crores. To support growth initiatives, the company intends to augment its manufacturing capabilities by adding additional presses.
- Critical components capacity utilization currently stands at a healthy 67-68%, signalling room for further operational efficiency within the organization.

Sansera Engineering Ltd.

Valuation & Outlook

Sansera's robust performance in 3QFY24, marked by a strong recovery across key geographies, underscores its resilience and adaptability in the competitive market landscape. The company's strategic move into fast-growing sectors such as Aerospace, Defence, and EVs, leveraging its design, engineering, and machining capabilities, has positioned it favourably for future growth. Moreover, the launch of a significant number of Tech Agnostic Auto components has consistently increased its content per vehicle, enhancing its market presence and revenue potential. The establishment of another Aluminium Forging & machining plant in Bidadi signals Sansera's commitment to expanding its product offerings and catering to emerging demand in sectors like Agriculture and Off-highway Vehicles. Additionally, the company's ambitious target to increase the combined contribution of Aerospace and Defence segments to the topline from the current 4.6% to over 10% within the next three to four years reflects its confidence in capturing lucrative opportunities in these domains. Moreover, the management expects an almost 600bps higher gross margin in the Defence business. Sansera's strong overseas presence, with exports accounting for over ~31% of revenue in 9MFY24, provides diversification and resilience against domestic industry fluctuations. Moving forward, several factors position Sansera for sustained growth:

1. Strong engineering capabilities enabling expansion of the addressable market in terms of product offering and geographic presence
2. Capitalizing on large non-auto opportunities to diversify revenue streams
3. Consistent generation of strong operating cash flows and organic growth outpacing industry peers
4. Improving product mix driving enhanced profitability
5. Capacity expansion plans

We anticipate a revenue growth of 16.5% in FY24-FY26E driven by the aforementioned factors. Additionally, the annual Capex funding of ~Rs. 200-250 crores is expected to be sourced from robust internal cash flows. The increase in the non-ICE share from 14% in FY22 to 20% in 9MFY24 is expected to drive a valuation re-rating, reflecting improved terminal growth assurance. Furthermore, we project EBITDA margins to rise from 17.2% in FY24 to 18.3% in FY26, driven by growth in sales mix towards Non-Auto ICE components, fungible production lines, improved operational efficiency and a favourable export-defence mix. **Based on the above positives, we value the stock based on 25x/20x of FY25e/FY26e earnings and arrive at a target price of Rs. 1,243 (23.4% upside from CMP) with a 12-month investment horizon.**

Sansera Engineering Ltd.

Key Financials

YE March (Rs. millions)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	14,570	15,490	19,890	23,383	27,878	32,600	37,816
<i>Revenue Growth (Y-o-Y)</i>	<i>(21.0%)</i>	<i>6.3%</i>	<i>28.4%</i>	<i>17.6%</i>	<i>19.2%</i>	<i>16.9%</i>	<i>16.0%</i>
EBIDTA	2,273	2,740	3,336	3,770	4,805	5,862	6,918
<i>EBIDTA Growth (Y-o-Y)</i>	<i>(28.4%)</i>	<i>20.5%</i>	<i>21.8%</i>	<i>13.0%</i>	<i>27.5%</i>	<i>22.0%</i>	<i>18.0%</i>
Net Profit	806	1,099	1,319	1,483	1,987	2,664	3,330
<i>Net Profit Growth (Y-o-Y)</i>	<i>(68.4%)</i>	<i>36.2%</i>	<i>20.1%</i>	<i>12.4%</i>	<i>34.0%</i>	<i>34.1%</i>	<i>25.0%</i>
Diluted EPS	15.0	20.5	24.6	27.7	37.1	49.7	62.1
<i>Diluted EPS Growth (Y-o-Y)</i>	<i>(68.4%)</i>	<i>(76.8%)</i>	<i>20.1%</i>	<i>12.4%</i>	<i>34.0%</i>	<i>34.1%</i>	<i>25.0%</i>

Key Ratios

EBIDTA margin (%)	15.6%	17.7%	16.8%	16.1%	17.2%	18.0%	18.3%
NPM (%)	5.5%	7.1%	6.6%	6.3%	7.1%	8.2%	8.8%
RoE (%)	11.1%	13.4%	13.7%	13.3%	14.6%	16.8%	17.5%
RoA (%)	4.2%	5.9%	6.3%	6.2%	13.3%	15.3%	15.3%

Valuation Ratios

P/E (x)	-	-	40.9x	36.4x	27.2x	20.3x	16.2x
EV/EBITDA	-	-	11.1x	10.9x	12.7x	10.4x	10.4x
P/BV (x)	-	-	3.4x	3.4x	4.0x	3.4x	3.4x
Market Cap. / Sales (x)	-	-	2.7x	2.3x	1.9x	1.7x	1.4x

Source: Company Reports, BP Equities Research, Bloomberg Estimates

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