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IPO REPORT

**“Subscribe” to
Sansera Engineering**

‘Expertise in complex precision components’

Salient features of the IPO:

- **Sansera Engineering Limited (SEL)** is an integrated manufacturer of complex and critical precision engineered components across automotive and non-automotive sectors.
- The IPO consists of a pure offer for sale of 1.72 cr shares by its existing shareholders and promoters.

Valuation: At the higher price band of Rs744, the issue is valued at P/E of 34.8x on FY21 EPS.

Below are few key observations of the issue: (continued in next page)

- SEL, incorporated in 1981, is a leading supplier of complex and high-quality precision components to OEMs. Bengaluru-based company is largest supplier of connecting rods, rocker arms and gear shifter forks to two-wheeler OEMs and connecting rods and rocker arms to passenger vehicles in India.
- The company has 16 manufacturing plants out of which 15 are located in India and 1 in Sweden. As per the company, production lines are modular and fungible and can be deployed across products and segments.
- In FY21, SEL derived ~ 88.5% of revenue from automotive sector and 11.6% from non-automotive sector. Key auto components that the company manufactures under automotive segment are connecting rods, rocker arms, crankshafts, gear shifter forks and aluminium forged parts. Within the non-automotive segment, the company manufactures a range of precision components for the aerospace, off-road, agriculture and other segments, including engineering and capital goods.
- Business model is well diversified across customer base, geographical spread and product portfolio. As of FY21, SEL caters to 71 customers which includes 47 from automotive segment and 28 from non-automotive segment. Revenue break-up on sub-segment wise include 50.4% from two wheelers, 24.1% from PVs and 13.1% from CVs, aerospace at 3.8%, off-road at 4.2% in FY21.
- Key two-wheeler customers of the company are Bajaj auto, HMSI, TVS Motors and Yamaha Motors. Maruti Suzuki and Honda Cars India are key customers under passenger vehicles category. SEL is a global supplier as 35% of revenue in FY21 was derived through exports to Europe, USA and other foreign countries.
- SEL is an integrated manufacturer of complex and critical precision engineered components which requires stringent quality requirement given their criticality to automotive systems. Owing to its expertise in critical components which requires complex engineering processes, the company has become largest supplier of connecting rods, rocker arms and gear shifter forks to TWs and PVs in India. This also represents entry barriers for the new players to enter these products segments. The company also maintains long standing relationship with marquee OEMs such as 34 years with Maruti Suzuki, 25 years with Bajaj Auto, 24 years with Yamaha Motors and 21 years with Honda Motorcycles (HMSI). Bajaj Auto is the largest customers for the company accounting for 20.7% of revenue in FY21.

Recommendation	Subscribe
Price Band	Rs734 - Rs744 per share
Face Value	Rs2 per share
Fresh Issue Size	Nil
Share for Fresh Issue	Nil
OFS Issue Size (at higher price band)	Rs1,283 cr
Total Issue Size	Rs1,283 cr
Bidding Date	Sep 14' 2021 - Sep 16' 2021
MCAP at higher price band	Rs3,823 cr
Book Running Lead Manager	ICICI Securities Limited, IIFL Securities Limited, Nomura Financial Advisory and Securities (India) Private Limited
Registrar	Link Intime India Private Limited
Industry	Auto Ancillary

Retail application money at higher cut-off price per lot	
Number of shares per lot	20
Application Money	Rs14,880 per lot

Allocation Detail	
Qualified Institutional Buyers (QIB)	50%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	35%

Shareholding Pattern		
	Pre-Issue	Post Issue
Promoter & promoter group	43.9%	36.6%
Public	56.1%	63.4%
Total	100.0%	100.0%

Source: Choice Broking Research, RHP

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- Coming to financial performance, SEL's revenue grew by a CAGR of 13% during FY16-FY20 which was higher than peer average of ~8%. Last two fiscals have been remained challenging for OEMs as auto players was earlier hit by weak demand, high insurance cost and increase RTO charges and later by Covid pandemic. SEL's revenue contracted by -2.3% during FY19-FY21 compared to over 5% decline in peer business. Though business size of SEL was small compared to mentioned peers in RHP. **SEL's business witnessed marked recovery from the impact of Covid led complete lockdown in H1FY21. Revenue grew by 37% YoY to Rs910 cr H2FY21. Margin trend also remained at satisfactory level. SEL reported EBIDTA margin at 17.6% and NPM at 7.1% in FY21 compared to peer average of ~14% and 7%. RoE was stood at 12.5% in FY21 which is expected to improve with expansion in revenue growth.**
- **Net debt/equity stood at 0.55x in FY21 seems at comfortable level. SEL generated OCF at Rs256 cr in FY21 with OCF margin at 16.5%. Strong OCF generation along with cash position (Rs65 cr cash in FY21), SEL is confident to fund capex with internal accruals. Capacity utilisation was ~56% across products, indicates operating leverage gain to expand business.**
- **Investors' sentiments remain weak towards automotive companies amid fear of rising competitions from electric vehicles (EV) players and requirement for capex requirement for EV expansion. As per the Crisil report, EV penetration in TW motorcycles will be less than 1% by FY26, ~4% for PVs and ~25% for TW scooters which indicates shift towards EVs would be more gradual in the longer term. While SEL manufactures core components for ICE engine, SEL intend to develop multiple technology driven systems and components to cater to growing opportunities in electrification of vehicles. Fungibility of production lines allowing company to interchange capacity and product mix over product categories will also benefit business.**
- **Primary raw materials for SEL are alloys steel rounds bars, non-ferrous alloys aluminium and titanium. Thereby volatility in metal prices include steel poses risk to business as raw material cost was 50% of total operating expenditure in FY21 (43% of sales).**
- **At the higher price band of Rs744, the issue is valued at P/E of 34.8x on FY21 EPS basis which is in line with peer avg. trailing P/E of 34x. As per our view, likely strong revenue growth and healthy EBIDTA margin over 15% to boost profitability in coming future.**

Considering all these parameters, we assign **'Subscribe'** rating to issue

Peer comparison

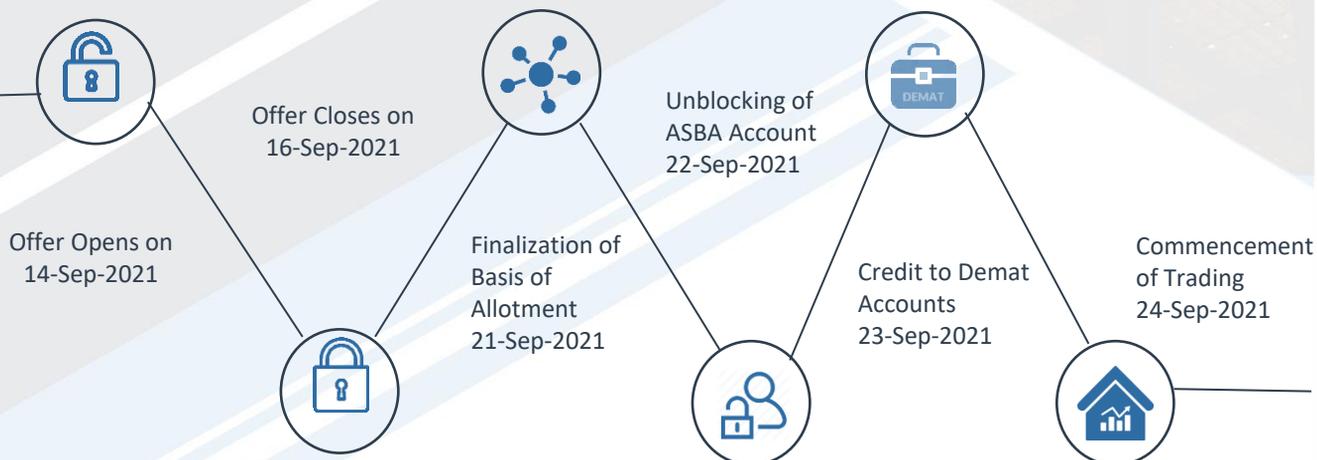
Companies	CMP (Rs/sh)	6M (R%)	12M (R%)	M Cap (Rs cr)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)	Sales CAGR FY19-FY21	EPS (Rs/sh)	BVPS (Rs/sh)	EV (Rs cr)
Sansera Engineering	744	-	-	3,823	17.6%	7.1%	12.5%	5.7%	-2.3%	21.4	173	4,321
Endurance Technologies	1,599	13.5%	49.0%	22,518	16.3%	8.4%	18.0%	11.2%	-6.6%	45.5	253	22,673.9
Minda Industries	705	27.3%	108.0%	18,765	12.9%	4.8%	15.6%	5.9%	3.9%	13.0	84	19,960.0
Sundram Fasteners	897	13.6%	108.0%	18,102	19.3%	11.5%	21.6%	12.9%	-10.6%	24.1	112	19,508.0
Suprajit Engineering	310	8.7%	88.0%	4,382	15.9%	11.0%	20.2%	11.6%	1.6%	14.3	71	4,592.0
Motherson Sumi System	213	-3.2%	92.0%	66,676	9.4%	3.3%	17.0%	4.5%	-5.0%	6.8	40	73,332.0
Mahindra CIE	237	25.7%	81.0%	8,338	12.2%	4.0%	6.3%	3.3%	-13.2%	8.4	133	10,122.3

Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDTA (x)	EV/Sales (x)	D/E (x)	Net Worth	Share Capital	Sales TTM	EBIDTA TTM	PAT TTM	Total Assets
Sansera Engineering	34.8	4.3	2.5	15.9	2.8	0.6	878	9	1,549	272	110	1,929
Endurance Technologies	35.2	6.3	3.0	18.3	3.0	0.2	3,562	141	7,638	1,242	641	5,747
Minda Industries	54.1	8.4	2.6	21.2	2.7	0.5	2,256	54	7,337	943	352	5,977
Sundram Fasteners	37.2	8.0	4.3	23.1	4.4	0.3	2,347	21	4,384	846	506	3,929
Suprajit Engineering	21.7	4.4	2.4	15.8	2.5	0.3	990	14	1,825	291	200	1,727
Motherson Sumi System	31.5	5.4	1.0	12.0	1.1	0.9	12,561	316	65,179	6,130	2,139	47,749
Mahindra CIE	28.2	1.8	1.1	10.5	1.3	0.3	5,030	379	7,884	962	319	947

About the issue:

- Sansera Engineering Limited (SEL) is coming out with initial public offering of Rs1,283 cr.
- The issue is 100% offer for sale (OFS).
- 1.72 cr shares are allotted under OFS. At the higher price band of Rs744, OFS size is stood at Rs1,283 cr.
- Promoter & promoter group is participating in the OFS.
- Post issue, promoter & promoter group stake will reduce from 43.9% to 36.6% pre-issue stake.
- Issue will open for subscription on Sep 14' 2021 and close on Sep 16' 2021
- Not more than 50% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not less than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not less than 35% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- **Of the total issue, Rs9 cr is reserved for employees. Employees will also get Rs36/share discount.**
- Objective of the issue to achieve the benefits of listing the equity shares on stock exchanges.
- Institutional investors participating in OFS are 1) Client EBENE Ltd. 2) CVCIGP II Ltd.
- Average cost of purchase is Rs119.2 for Client EBENE Ltd. and CVCIGP II Ltd.
- This is the second attempt by SEL to go public. It had filed IPO papers with SEBI in Aug 2018 and had also received its clearance to float the public issue. However, the issue was not launched.

Indicative IPO process time line:



Company introduction:

SEL is an engineering-led integrated manufacturer of complex and critical precision engineered components across automotive and non-automotive sectors. The company supply most of products directly to OEMs in finished (forged and machined) condition. SEL has 16 manufacturing facilities of which 15 located in India and one in Sweden.

Within the automotive sector, the company manufacture and supply a range of precision forged and machined components and assemblies. Key products under this segment are connecting rod, rocker arm, crankshaft, gear shifter fork, stem comp, and aluminium forged parts, that are critical for engine, transmission, suspension, braking, chassis and other systems for the two-wheeler, passenger vehicle and commercial vehicle verticals. Within the non-automotive sector, the company manufactures and supply a range of precision components for the aerospace, off-road, agriculture and other segments, including engineering and capital goods. In FY21, SEL derived ~ 88.5% of revenue from automotive sector and 11.6% from non-automotive sector. Exports constituted 65% of total operating revenue in FY21 from Europe, USA and other foreign countries combined.

SEL is one of the top 10 global suppliers of connecting rods for L&MHV. In the domestic market, SEL is the largest supplier of connecting rods, rocker arms and gear shifter forks to two wheeler OEMs and connecting rods and rocker arms to passenger vehicles OEMs in India.

SEL reported operating revenue of Rs1,549 cr in FY21. Revenue de-grew by a CAGR of -2.3% over FY19-FY21 due to slowdown in automotive industry. Though the company reported 6.3% growth in revenue during FY21 despite pandemic related business impact. Two-wheeler and passenger vehicle segments of auto industry in India registered a decline in production of 12.6% and approximately 11% in FY21 respectively. SEL's EBIDTA margin stood at 17.6% and NPM at 7.1% in FY21. PAT was reported at Rs110 cr in FY21. RoE/RoA stood at 12.5%/5.7% in FY21.

Rs cr	FY21		FY20		FY19	
	Revenue	% of Revenue	Revenue	% of Revenue	Revenue	% of Revenue
Automotive Segments						
Two-wheelers	734	50.4%	701	50.3%	727	47.6%
<i>Of which:</i>						
Scooters	146	10.0%	164	11.8%	162	10.6%
Motorcycles	588	40.4%	537	38.5%	564	37.0%
Three-wheelers	12	0.8%	18	1.3%	23	1.5%
Passenger vehicles	351	24.1%	324	23.3%	367	24.0%
Commercial vehicles	191	13.1%	181	13.0%	225	14.8%
Sub Total (Automotive)	1,289	88.5%	1,224	87.9%	1,342	87.9%
Non-Automotive Segments						
Aerospace	55	3.8%	81	5.8%	68	4.4%
Off-road	61	4.2%	41	3.0%	56	3.6%
Agriculture	36	2.5%	30	2.2%	39	2.6%
Others	17	1.1%	16	1.2%	23	1.5%
Sub Total (Non Automotive)	168	11.6%	169	12.1%	185	12.1%
Revenue	1,457	100.0%	1,393	100.0%	1,527	100.0%
India	947	65.0%	966	69.4%	1,054	69.0%
Overseas	510	35.0%	427	30.6%	473	31.0%

Source: Choice Broking Research, RHP



Competitive strengths:

- A leading supplier of complex and high-quality precision engineered components that is gaining market share across automotive and non-automotive sectors
- Well diversified business model
- Long standing relationships with well-known Indian and global OEM customers

Business strategy:

- Consolidate and strengthen global market share in existing automotive product portfolio and diversify into new products to cater to the expected increase in electrification of vehicles
- Continue to leverage existing capabilities to diversify further into non-automotive businesses and expand addressable markets
- Retain and strengthen technological leadership through continued focus on engineering capabilities
- Focus on operational efficiency to improve returns



Risk and concerns:

- Prevailing slowdown in automobile industry
- Volatility in raw material prices
- Business uncertainty amid fear of Covid 3rd wave

Financial statements:

Rs crore

Profit & Loss A/c

Particulars	FY19	FY20	FY21
Operating Revenue (OR)	1,624.4	1,457.2	1,549.3
Cost of materials consumed	(722.0)	(628.2)	(667.8)
Changes in Inventories of Finished Goods, Work-in-Progress	16.7	1.9	4.4
Employee Benefit Expenses	(217.4)	(213.4)	(213.8)
Other Operating Expenses	(412.6)	(392.7)	(399.9)
EBITDA	289.1	224.7	272.1
Depreciation and Amortization Expenses	(75.8)	(93.9)	(101.7)
EBIT	213.3	130.8	170.4
Finance Costs	(51.3)	(58.1)	(47.4)
Other Income	16.4	16.0	23.1
Exceptional items	(13.5)		
PBT	165.0	88.7	146.1
Tax Expenses	(66.9)	(8.8)	(36.3)
PAT	98.1	79.9	109.9

Balance Sheet

Particulars	FY19	FY20	FY21
Share Capital	9.4	9.4	9.4
Other Equity	676.0	758.8	868.9
Non-controlling interest	9.1	8.7	10.5
Long Term Borrowings	294.0	250.7	268.7
Long Term Provisions	8.6	12.7	15.2
Other long term liabilities	49.8	43.7	46.7
Short Term Borrowings	313.0	365.1	266.3
Trades Payables	186.6	172.9	227.0
Other short term liabilities	114.0	138.3	144.4
Short Term Provisions	6.5	9.9	9.9
Deferred tax liabilities (Net)	78.5	58.2	61.9
Total Liabilities	1,745.5	1,828.2	1,928.9
Tangible Assets	978.7	1,029.4	1,089.2
Intangible Assets	35.7	34.9	37.8
Capital Work In Progress	48.9	68.3	60.4
Long Term Loans and Advances	25.7	26.7	28.5
Non-current financial assets	3.4	7.2	5.1
Other Non Current Assets	29.0	23.4	25.2
Inventories	243.5	238.9	248.6
Trade Receivables	271.2	259.1	313.0
Cash and cash equivalents	23.9	60.0	36.5
Bank balances	7.7	11.6	28.6
Short term financial assets	26.2	24.0	22.8
Other Current Assets	51.6	44.6	33.2
Total Assets	1,745.5	1,828.2	1,928.9

Cash Flow Statement

Particulars	FY19	FY20	FY21
Cash Flow from Operating Activities	218.5	241.2	256.0
Cash Flow from Investing Activities	(237.6)	(177.1)	(139.5)
Purchase of fixed assets and properties	(238.1)	(176.7)	(135.1)
Cash Flow from Financing Activities	14.5	(28.9)	(139.2)
Net Cash Flow	(4.7)	35.2	(22.6)
Opening Balance of Cash and Bank Balances	34.3	23.9	60.0
Closing Balance of Cash and Bank Balances	29.7	59.1	37.4

Financial Ratios

Particulars	FY19	FY20	FY21
Growth & Margin ratios			
Revenue Growth Rate (%)		-10.3%	6.3%
EBITDA Growth Rate (%)		-22.3%	21.1%
EBITDA Margin (%)	17.8%	15.4%	17.6%
EBIT Growth Rate (%)		-38.7%	30.3%
EBIT Margin (%)	13.1%	9.0%	11.0%
Adjusted PAT Growth Rate (%)		-18.5%	37.5%
Reported PAT Margin (%)	6.0%	5.5%	7.1%

Turnover ratios

Inventories Turnover Ratio (x)	6.7	6.1	6.2
Trade Receivable Turn. Ratio (x)	6.0	5.6	5.0
Accounts Payable Turn Ratio (x)	8.7	8.4	6.8
Fixed Asset Turnover Ratio (x)	1.7	1.4	1.4
Total Asset Turnover Ratio (x)	0.9	0.8	0.8
Working Capital Turn. Ratio (x)	0.0	-74.1	-226.6

Operational ratios

Current Ratio (x)	1.0	0.9	1.1
Debt to Equity (x)	0.9	0.8	0.6
Total Debt (Rs cr)	606.9	615.8	535.0
Net Debt (Rs cr)	556.8	531.8	475.7
Net Debt to EBITDA (x)	1.9	2.4	1.7
Net Debt to Equity (x)	0.8	0.7	0.5

Return ratios

RoE (%)	14.3%	10.4%	12.5%
RoA (%)	5.6%	4.4%	5.7%
RoCE (%)	21.4%	12.6%	14.5%
RoIC (%)	12.6%	11.2%	10.7%
EV (Rs cr)	4,405.5	4,378.3	4,321.0
EV/Sales (x)	2.7	3.0	2.8
EV/EBITDA (x)	15.2	19.5	15.9

Per share ratios

EPS	19.1	15.6	21.4
BVPS	135.2	151.2	173.0
OCF/sh	42.5	46.9	49.8
FCF/sh	86.1	85.7	54.9

Valuation ratios

P/E (x)	39.0	47.8	34.8
P/BVPS (x)	5.5	4.9	4.3
P/S (x)	2.4	2.6	2.5
EV/EBITDA (x)	15.2	19.5	15.9

Source: Choice Broking Research, RHP

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