

SEPTEMBER 12, 2021

IPO Note

SANSERA ENGINEERING LTD**NOT RATED**

(Note: All the information in this note is taken from RHP)

Offer Details

The offer consists of offer for sale of up to 17,244,328 equity shares. The price band is in the range of Rs.734-744/share.

Objects of the offer

The objects of the offer are to (i) to carry out the offer for sale of up to 17,244,328 equity shares by the selling shareholders; and (ii) achieve the benefits of listing the equity shares on the stock exchanges. The company will not receive any proceeds from the offer and all such proceeds (net of any offer related expenses to be borne by the selling shareholders) will go to the selling shareholders. The company expects that listing of the equity shares will enhance the visibility and brand image and provide liquidity to the shareholders and will also provide a public market for the equity shares in India.

Details of the offer

Particulars	Details
Price band (Rs/share)	734-744
Opening date of the Issue [^]	14th September, 2021
Closing date of the issue	16th September, 2021
No. of shares pre-issue (nos. lakhs)	514
Fresh Issue (nos. lakhs)*	0.0
Offer for sale (nos. lakhs)*	172
No. of shares post-issue (nos. Lakhs)*	514
Fresh Issue size (Rs Cr)*	0
Offer for sale size (Rs Cr)*	1,283
Issue size (Rs Cr)*	1283
Face Value (Rs/ share)	2
Bid Lot	20 equity share and in multiples of 20 equity shares thereafter
Book Building	
QIBs (Including Anchor)	50%
Non-Institutional	15%
Retail	35%
Book Running Lead managers (BRLM)	ICICI Securities Limited / IIFL Securities Limited/ Nomura Financial Advisory and Securities (India) Private Limited
Registrar to the issue	Link Intime India Private Limited

Source: Company's RHP, * Based on upper price band; [^]The Anchor Investor Bidding Date shall be one Working Day prior to the Bid/Offer Opening Date

Shareholding Pattern #

	Pre-Issue	Post-Issue [^]
Promoter & Promoter Group holding * (%)	43.9	36.6
Public holding (%)	56.1	63.4
Total (%)	100	100

Source: Company's RHP, [^]Based on upper price band; *Pursuant to the provisions of a memorandum of understanding executed between Fatheraj Singhvi and the Singhvi Family Shareholders, dated May 15, 2013, Fatheraj Singhvi is acting in trust in relation to 2,030,000 Equity Shares held by the Singhvi Family Shareholders. # Based on number of Equity Shares outstanding as on the date of Red Herring Prospectus, prior to exercise of vested employee stock options

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Equity Shares being offered by the Selling Shareholders

Selling Shareholder	Number of Equity Shares offered in the Offer for Sale
Client Ebene Limited	86,35,408
CVCIGP II Employee Ebene Limited	48,36,723
Subramonia Sekhar Vasani	20,58,069
Unni Rajagopal Kothanath	5,71,376
Fatheraj Singhvi *	5,71,376
Devappa Devaraj	5,71,376
Total	1,72,44,328

Source: Company's RHP; *Fatheraj Singhvi is acting in trust for the offer for sale; Note - Refer RHP for more details

Business Overview

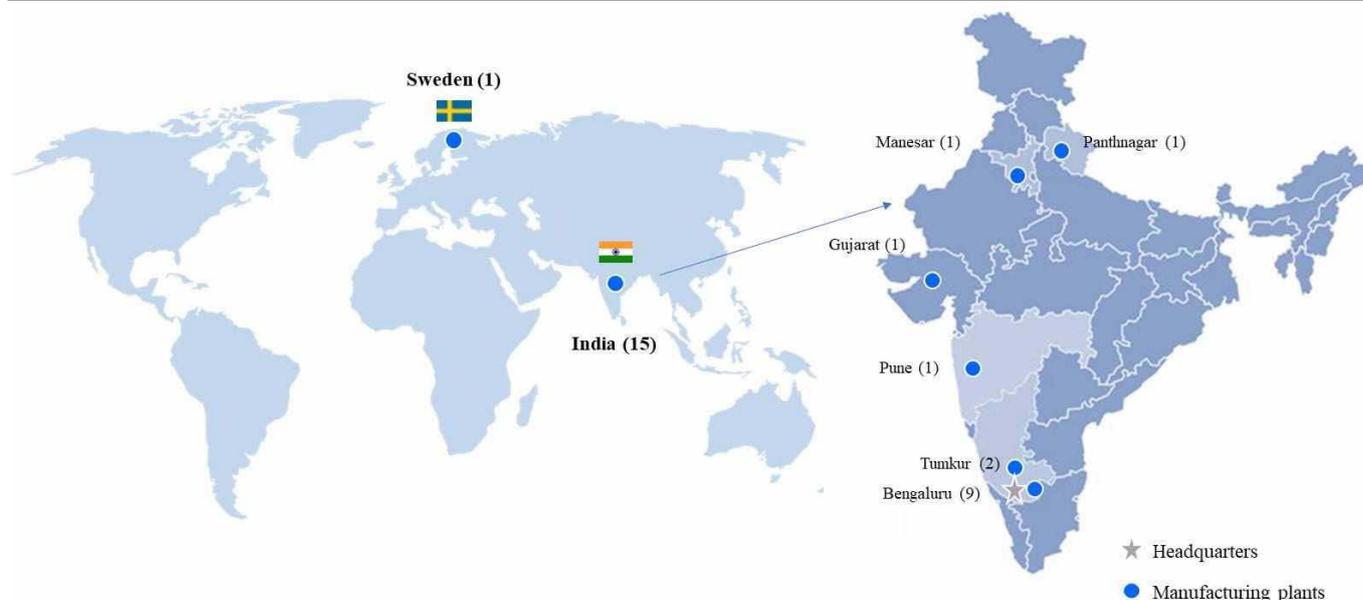
Sansera is an engineering-led integrated manufacturer of complex and critical precision engineered components across automotive and non-automotive sectors. Within the automotive sector, it manufactures and supply a range of precision forged and machined components and assemblies, such as connecting rod, 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, it manufactures and supply a range of precision components for the aerospace, off-road, agriculture and other segments, including engineering and capital goods.

Key product families manufactured for various verticals in the automotive and non-automotive sectors

Sector/Segment/Vertical	Product families supplied
Automotive	
Two-wheelers	Connecting rod, rocker arm, gear shifter fork, crankshaft assembly, stem comp, integral crankshaft, aluminium forged components
Passenger vehicles	Connecting rod, rocker arm, sprocket, gear shifter forks, yoke universal joint, rocker shaft, hub front axle, end rear axle
Commercial vehicles	Connecting rod, cabin tilt systems, integral crankshaft, bracket, pump barrel
Non-Automotive	
Aerospace	Multiple products for various subsystems such as aerostructure, actuation, equipment housing, cargo, seating and lighting
Off-road	Crankshaft assembly, balancer shaft, connecting rod, gear shifter fork
Agriculture	Cam shaft, connecting rod, pump barrel, lever, link
Others	Connecting rod, pump barrel, integral crankshaft

Source - Company's RHP

Manufacturing Facilities



Source - Company's RHP

Key Managerial Personnel

Name	Designation	Background
Mr. Subramonia Sekhar Vasani	Chairman and Managing Director	He has been a Director of the company since incorporation. He holds a bachelor's degree in technology from Indian Institute of Technology, Madras and a post graduate diploma in management from Indian Institute of Management, Bangalore. He has over 39 years of professional experience.
Mr. Fatheraj Singhvi	Joint Managing Director	He is currently the chairman of Pillar 3 of ACMA overseeing the activities of ACT, ASDC, HR, YBLF. 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. He was a partner at of M/s. Singhvi, Dev & Unni from 1981 to 2006.
Mr. B R Preetham	Group Chief Executive Officer	He has been associated with the company since September 28, 1992. He is responsible for supervising the affairs of the company and the subsidiaries. He holds a bachelor's degree in engineering from Bangalore University. He has over 28 years of experience and has oversight across all areas of company's business including developing and maintaining relationships with companies and suppliers.
Mr. Vikas Goel	Chief Financial Officer	He has been associated with the company since July, 2019. He is responsible for supervising the affairs of the finance department of the company. He is a fellow member of the Institute of Chartered Accountants of India and an associate member of the Institute of Cost and Works Accountants of India. He has previously been associated with Ingersoll-Rand (India) Limited for two years, Stanley Black & Decker India Private Limited from November, 2013 up to June, 2017, and WeirIndia Private Limited from March, 2003 upto November, 2013. He has also previously worked at Motherson Sumi Systems Limited and Delton cables Limited.
Mr. Praveen Chauhan	Vice President (Group)	He has been associated with the company since August 1, 2004. He is responsible for supervising the affairs of the company's plant operations. He holds a diploma in automobile engineering from Board of Technical Education Delhi. He has over 35 years of experience in the field of engineering. Prior to joining this company, he was associated with Maruti Udyog Limited.
Mr. Rajesh Kumar Modi	Company Secretary and Compliance Officer	He has been associated with the company since December 14, 2018. He holds a bachelor's degree in law from Barkatullah University, Bhopal. He is a member of the Institute of Company Secretaries of India. He has over 19 years of experience in the legal and secretarial field.

Source: Company RHP

Strengths

A leading supplier of complex and high-quality precision engineered components that is gaining market share across automotive and non-automotive sectors

Precision components such as connecting rods, crankshafts and rocker arms are manufactured using complex engineering processes, and given their criticality to automotive systems, they require a high level of precision and adherence to high standards of quality. Sansera is one of the top 10 global suppliers of connecting rods in terms of production volume (units) for (i) Light Vehicles with a global market share of 2.3% in CY 2020 compared to a global market share of 0.9% in CY 2015 and (ii) CVs with a global market share of 3.0% in CY 2020 compared to a global market share of 0.9% in CY 2015. (Source: the Ricardo Report). Within India, the company is one of the leading manufacturers of (i) connecting rods, crankshafts, rocker arms and gear shifter forks for two-wheelers and (ii) connecting rods and rocker arms for passenger vehicles. Specifically, within two-wheelers, it is the largest supplier of connecting rods, rocker arms and gear shifter forks in India. Within passenger vehicles, the company is the largest supplier of connecting rods and rocker arms in India. (Source: the CRISIL Report)

Well diversified business model

Sansera's business model is well diversified by customer base, end segment, geographical spread of revenues and product portfolio. The company were suppliers to 71 customers during Fiscal 2021 as compared to 64 during Fiscal 2019 and are continuously pursuing new customer relationships. Sansera derives revenue from multiple segments within the automotive sector, including the two-wheeler, passenger vehicle and commercial vehicle verticals. Within the non-automotive sector, it manufactures and supply a range of precision components for the aerospace, off-road, agriculture and other segments, including engineering and capital goods. The company has focused on increasing their export revenues with a view to reduce dependence on the Indian market. Sansera's revenues from sale of products are geographically diversified with Europe, USA and other foreign countries. Within most of the product families, the company manufactures a range of components for multiple end applications. Sansera sold components across 69 product families during Fiscal 2021 as compared to 51 during Fiscal 2019.

Advanced capabilities in design and engineering, machine building and automation resulting in continuous new product development and improved productivity, with fungibility of equipment, machinery and production lines across product families and sectors

Sansera's design and engineering capabilities comprise product, process, machine, fixture and cutting tool design as well as advanced engineering capabilities. The company possess integrated machine building capabilities with special purpose machines being manufactured in-house. Sansera's automation capabilities enabled them to combine operations and eliminate multiple operators in the production process in order to increase productivity, while controlling costs and maintaining consistent product quality. The production line configurations are flexible, allowing them to interchange capacity and product mix between all their product categories within and across automotive and non-automotive sectors.

Long-standing relationships with well-known Indian and global OEM customers

Sansera have a long-standing relationships with several well-known Indian and global OEMs. Specifically, (i) in the two-wheeler vertical, the company has relationships of 25 fiscal years with Bajaj, over 20 years with Yamaha and over 20 years with HMSI; and (ii) in the passenger vehicle vertical, it has relationships of over 30 years with Maruti Suzuki, over 10 years with Stellantis N.V. (formerly Fiat Chrysler Automobiles), a leading European passenger vehicle OEM (source: the Ricardo Report), and over 10 years with one of the leading North American passenger vehicle OEMs. The company have relationships spanning 10 years or more with 12 of their top 20 customers.

Strategies

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

Sansera intends to focus on consolidating their leading market share, both globally and in India across its existing product portfolio. The company's long-standing experience in supplying most complex and critical engine and transmission components, makes them well positioned to diversify into other segments such as suspension, braking, steering, chassis and other systems within the automotive sector. Further, the company intends to develop multiple technology driven systems and components to cater to growing opportunities in electrification of vehicles. Sansera is in the process of setting up a dedicated facility for hybrid and electric components in Plant 2 and they expect this facility to be commissioned during Fiscal 2022.

As part of its strategy to diversify into technology agnostic products and to cater to growing opportunities with respect to electric powertrains, the company has added multiple new components in the two-wheeler segment over the last couple of years. The company has recently secured business for multiple drive train components, specifically for hybrid EVs, secured orders for braking system components from a leading Indian passenger vehicle OEM & for multiple steering components from an Indian Tier 1 supplier and supplies aluminium forged products developed for high-end two-wheelers. As part of their diversification strategy, Sansera has recently started supplying precision components for cabin tilt systems, which are part of the chassis of HCVs.

Continue to leverage existing capabilities to diversify further into non-automotive businesses and expand addressable market

Within the non-automotive segment, Sansera primarily focuses on manufacturing precision engineered components that require complex engineering capabilities, resulting in high value addition by them. Over the years, the company's strategy in the aerospace segment has been to increase their revenue by supplying high value components. Sansera intends to increase the number of engine and landing gear components and graduate to supply of subsystems and assemblies. Company plans to construct a new greenfield manufacturing facility in Bangalore dedicated to aerospace and defence. The company intends to increase their revenue from the off-road sector by adding new products and customers. Sansera plans to develop and manufacture additional precision components for other non-automotive applications where it can leverage their engineering capabilities.

Retain and strengthen the technological leadership through continued focus on engineering capabilities

The customers' demand for higher performance and top-quality products is growing. In response to this, the company has placed emphasis on continually improving their design and engineering capabilities. Leveraging years of engineering know how in product design, validation through simulation, testing and manufacturing engineering, the company has recently developed or are currently developing (i) complex machined drive train components for hybrid transmission systems in passenger vehicles; (ii) intricately shaped aluminium forged and machined components for ICE and electric two-wheeler; (iii) multiple complex and high precision finger followers with diamond-like coating for two-wheeler and passenger vehicles, and (iv) gear shifter forks with moly coating (for high wear resistance) and case carburised split connecting rods for super premium motorcycles for multiple global OEMs.

Risk Factors

- Any failure to adapt to industry trends and evolving technologies to meet customers' demands may materially adversely affect the company's business and results of operations.
- The company derives a substantial portion of its revenue from their key product families, especially connecting rods, and if these products become obsolete it would have a material adverse effect on the company's business, financial condition, results of operations and cash flows.

Annexures –

Sansera's revenue from sale of products from their top five customers

Customer	Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Revenue (Rs cr)	% of Revenue from sale of Products	Revenue (Rs cr)	% of Revenue from sale of products	Revenue (Rs cr)	% of Revenue from sale of products
Customer 1	302	20.75%	308	22.08%	347	22.71%
Customer 2	204	14.00%	192	13.76%	187	12.25%
Customer 3	149	10.20%	131	9.43%	141	9.22%
Customer 4	131	8.99%	132	9.47%	158	10.33%
Customer 5	77	5.28%	66	4.73%	84	5.50%
Total top 5 customers	863	59.21%	828	59.46%	916	60.01%
Revenue from Sale of Products	1,457	100.00%	1,393	100.00%	1,527	100.00%

Source - Company's RHP

Sansera's revenues from various end-use segments

Segments	Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Revenue (Rs cr)	% of Revenue from sale of Products	Revenue (Rs cr)	% of Revenue from sale of products	Revenue (Rs cr)	% of Revenue from sale of products
Automotive Segments						
Two-wheelers	734	50.39%	701	50.30%	727	47.60%
Of which:						
Scooters	146	10.02%	164	11.77%	162	10.64%
Motorcycles	588	40.37%	537	38.53%	564	36.96%
Three-wheelers	12	0.79%	18	1.28%	23	1.48%
Passenger vehicles	351	24.12%	324	23.29%	367	24.04%
Commercial vehicles	191	13.14%	181	12.99%	225	14.77%
Sub Total (Automotive)	1,289	88.45%	1,224	87.86%	1,342	87.89%
Non-Automotive Segments						
Aerospace	55	3.76%	81	5.84%	68	4.42%
Off-road	61	4.17%	41	2.98%	56	3.64%
Agriculture	36	2.48%	30	2.15%	39	2.56%
Others	17	1.14%	16	1.17%	23	1.49%
Sub Total (Non-Automotive)	168	11.55%	169	12.14%	185	12.11%
Revenue from Sale of Products	1,457	100.00%	1,393	100.00%	1,527	100.00%

Source - Company's RHP

Sansera's revenues by geographical spread

Geography	Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Revenue (Rs cr)	% of Revenue from sale of Products	Revenue (Rs cr)	% of Revenue from sale of products	Revenue (Rs cr)	% of Revenue from sale of products
India	947	64.98%	966	69.38%	1,054	69.00%
Europe (A)	364	24.99%	327	23.45%	368	24.12%
USA (B)	101	6.95%	71	5.10%	90	5.91%
Other foreign countries (C)	45	3.08%	29	2.08%	15	0.97%
Revenue from foreign countries (A+B+C)	510	35.02%	427	30.62%	473	31.00%
Revenue from Sale of Products	1,457	100.00%	1,393	100.00%	1,527	100.00%

Source - Company's RHP

SEPTEMBER 12, 2021

Sansera's revenues by product families

Products	Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Revenue (Rs cr)	% of Revenue from sale of Products	Revenue (Rs cr)	% of Revenue from sale of products	Revenue (Rs cr)	% of Revenue from sale of products
Connecting rods	578	39.66%	521	37.42%	587	38.42%
Rocker arms	284	19.47%	290	20.82%	300	19.64%
Crank shaft assembly	251	17.23%	253	18.17%	288	18.85%
Gear shifter forks	96	6.58%	100	7.21%	128	8.37%
Stem comp	55	3.78%	14	1.04%	0	0.00%
Aerospace products	55	3.76%	81	5.84%	68	4.42%
Integral crankshaft	15	1.02%	14	1.00%	5	0.34%
Others	124	8.50%	118	8.50%	152	9.96%
Revenue from Sale of Products	1,457	100.00%	1,393	100.00%	1,527	100.00%

Source - Company's RHP

Financials

Restated Consolidated Statement of Assets and Liabilities

Y/E March (Rs. In Crores)	FY19	FY20	FY21
Assets			
Non-current assets			
Property, Plant and Equipment	889	942	1,000
Capital Work in progress	49	68	60
Goodwill	32	32	36
Other intangible assets	3	3	2
Right-of-use-asset	90	87	89
Financial assets			
<i>Investments</i>	-	4	4
<i>Loans</i>	26	27	28
<i>Other financial assets</i>	3	3	1
Tax assets for current taxes (net)	6	3	3
Other non-current assets	23	20	22
Total Non-current assets	1,121	1,190	1,246
Current Assets			
Inventories	243	239	249
Financial assets			
<i>Investments</i>	1	0	1
<i>Trade receivables</i>	271	259	313
<i>Cash and cash equivalents</i>	24	60	37
<i>Bank balances other than cash and cash equivalents</i>	8	12	29
<i>Other financial assets</i>	26	24	22
Other current assets	52	45	33
Total Current Assets	624	638	683
Total Assets	1,745	1,828	1,929
Equity and Liabilities			
Equity			
Equity share capital	9	9	9
Instruments entirely equity in nature	11	11	11
Other equity	665	748	858
Total equity attributable to owners of the company	685	768	878
Non-controlling Interests	9	9	10
Total equity	695	777	889
Liabilities			
Non-current liabilities			
Financial liabilities			
<i>Non-current borrowings</i>	213	172	188
<i>Lease liabilities</i>	81	79	81
<i>Other financial liabilities</i>	8	1	-
Non-current provision	9	13	15
Deferred tax liabilities (net)	70	55	62
Other non-current liabilities	42	43	47
Total Non-current liabilities	423	362	392
Current liabilities			
Financial Liabilities			
<i>Current borrowings</i>	304	355	255
<i>Lease liabilities</i>	9	10	11
<i>Trade payables</i>	187	173	227
<i>Other financial liabilities</i>	100	122	124
Current tax liabilities (net)	8	3	0
Other current liabilities	14	16	21
Current provisions	7	10	10
Total Current liabilities	628	689	648
Total Equity and Liabilities	1,745	1,828	1,929

Source: Company's RHP

Restated Consolidated Statement of Profit and Loss

Y/E March (Rs. In Crores)	FY19	FY20	FY21
Revenue			
Revenue from operations	1,624	1,457	1,549
Other income	16	16	23
Total income	1,641	1,473	1,572
Expenses			
Cost of material consumed	722	628	668
Changes in inventory of finished goods and work in progress	-17	-2	-4
Conversion charges	47	49	53
Consumption of stores and spares	151	131	134
Power and fuel	84	75	67
Employee benefit expenses	217	213	214
Finance costs	51	58	47
Depreciation and amortisation expense	76	94	102
Other expenses	131	138	147
Total Expenses	1,462	1,384	1,426
Profit before exceptional items and tax	178	89	146
Exceptional items	13	-	-
Profit before tax	165	89	146
Tax expense:	67	9	36
Current tax	49	24	30
Deferred tax (credit)/charge	18	-15	6
Profit for the year	98	80	110
Other comprehensive income/(exp) for the year, net of income tax	-3	2	2
Total comprehensive income for the year, net of tax	95	82	112
Profit attributable to Owners of the Company	96	80	108
Total comprehensive income attributable to Owners of the Co	93	83	110
Earnings per equity share (Basic)	18.7	15.6	21.0
Earnings per equity share (Diluted)	18.3	15.3	20.6

Source: Company's RHP

Restated Consolidated Cash Flow Statement

Y/E March (Rs. In Crores)	FY19	FY20	FY21
Net cash generated from operating activities	218	241	256
Net cash used in investing activities	-238	-177	-139
Net cash (used in)/generated from financing activities	14	-29	-139
Net (decrease) / increase in cash and cash equivalents	-5	35	-23
Cash and cash equivalents at the beginning of the year	34	24	60
Effect of exchange differences on translation of foreign currency cash	-6	1	-1
Cash and cash equivalents at the end of the year	24	60	37
Net increase/(decrease) in cash and cash equivalents	-5	35	-23

Source: Company's RHP

RATING SCALE (PRIVATE CLIENT GROUP)

Definitions of ratings

BUY	– We expect the stock to deliver more than 15% returns over the next 12 months
ADD	– We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	– We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	– We expect the stock to deliver < -5% returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
RS	– Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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Disclosure/Disclaimer (Private Client Group)

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