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#### Company update and target price change

## Automobiles

**Target price: Rs1,033**

**Target price revision**

Rs1,033 from Rs1,001

#### Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	35.7	35.7	35.7
Institutional investors	55.7	55.2	55.2
MFs and others	11.0	11.5	11.4
FIs/Banks	4.8	5.2	5.5
FII	39.8	38.7	38.3
Others	8.7	8.9	9.1

Source: BSE

#### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.  
Source: Bloomberg, I-sec research

#### Research Analysts:

**Basudeb Banerjee**

Basudeb.banerjee@icicisecurities.com  
+91 22 6807 7260

**Vishakha Maliwal**

Vishakha.maliwal@icicisecurities.com  
+91 22 6807 7161

INDIA

# Sansera Engineering



**BUY**

**Maintained**

**Rs840**

## Tailwinds in place for profitable growth

We recently visited various facilities of Sansera Engineering (SEL) and interacted with the senior management to understand their business strategy and outlook. Following are the key takeaways: a) SEL is aiming towards ~Rs35bn revenue by FY25 vs Rs23bn in FY23 with growth being driven by domestic 2W demand revival, return of growth in export markets and expansion of the aerospace segment; b) Bidadi plant, after clocking Rs2.4bn revenue in FY23, is targeting to double the figure by FY25 with a new 4,000T press coming in along with existing four presses running at full capacity on the existing orderbook; c) post reaching ~Rs900mn revenue in aerospace in FY23, SEL is aiming to take it up to Rs2.5bn by FY25 driven by its newly constructed facility; f) SEL has no plans to enter the casting space and, with forging needs per 2W set to be more than casting value addition, SEL will try to add new forging parts under both steel and aluminum forging capabilities. Maintain BUY on the stock keeping estimates unchanged and with a DCF-based target price of Rs1,033, implying 18x FY25E earnings. Change in price target is driven by rollover of earnings by a quarter.

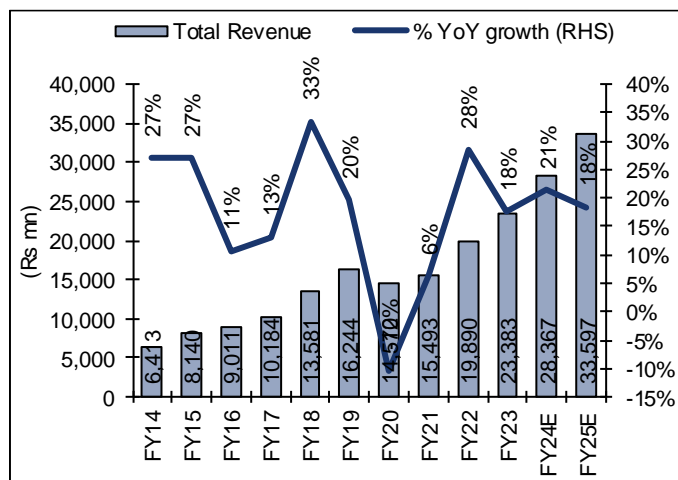
#### Key takeaways from our interaction with management:

- ▶ SEL has invested ~Rs3.5bn towards gross block for Bidadi plant till now with potential peak revenue of ~Rs5bn-5.5bn p.a. from that investment as against Rs2.4bn revenue in FY23 from that facility. SEL expects revenue to ramp up to Rs4.8bn-5bn by FY25 from the Bidadi facility, which has both steel and aluminum forging capabilities. By putting a new 4,000T press in this plant, the company is aiming to make large steel crankshafts in-house for 6-litre genset engines in addition to making large aluminum components for 2Ws for OEMs like Royal Enfield, KTM, etc. Aluminum forging revenue stood at Rs600mn in FY23 and SEL aims to take it to Rs1.5bn by FY25.
- ▶ SEL has no plans to enter the casting business in the foreseeable future, but will focus towards diversification of the forging business only. Value addition in forging is similar to that in casting in ICE 2Ws, but in EVs it tilts more towards forging.
- ▶ The new aerospace facility's peak revenue is estimated at Rs3.5bn with machineries from the older plant getting shifted here. As against Rs900mn aerospace revenue in FY23, SEL is targeting Rs2.5bn revenue from the segment by FY25. The older aerospace plant space would be used for auto parts expansion down the line.
- ▶ SEL is looking forward to grow its exports by ~40-50% in FY23 led by expansion in the aluminum forging and aerospace businesses along with addition of new businesses from Polaris ATV, Tesla, CNH, and overall growth in key markets.
- ▶ Company is aiming to improve EBITDAM from ~16% currently to ~18-19% by FY25 through improvement in exports and aerospace mix, and improved operating leverage via increase in 2W utilisation from the current sub-60% levels.
- ▶ SEL is aiming to reduce 'net debt / equity' from 0.55x currently to 0.4x by FY25 along with operating at 8-9% capex/sales ratio and subsequently increase the RoCE towards 20% with improved profitability. Thus asset sweating of the capex down in last couple of years with improved margin would help SEL improve its ROCE.

Market Cap	Rs44.8bn/US\$540mn	Year to Mar	FY22	FY23	FY24E	FY25E
Bloomberg	SANSERA IN	Revenue (Rs mn)	19,890	23,383	28,367	33,597
Shares Outstanding (mn)	52.9	Net Income (Rs mn)	1,305	1,462	2,408	2,982
52-week Range (Rs)	868/642	EPS (Rs)	25.4	28.5	46.9	58.0
Free Float (%)	44.8	% Chg YoY	20.8	12.1	64.7	23.8
FII (%)	38.3	P/E (x)	33.2	29.7	18.0	14.5
Daily Volume (US\$/'000)	521	CEPS (Rs)	48.7	53.8	77.9	93.0
Absolute Return 3m (%)	14.0	EV/E (x)	14.8	13.2	9.2	7.6
Absolute Return 12m (%)	20.6	Dividend Yield (%)	0.2	0.3	0.5	0.6
Sensex Return 3m (%)	5.3	RoCE (%)	14.8	14.9	19.8	21.3
Sensex Return 12m (%)	14.6	RoE (%)	13.7	13.3	18.8	19.6

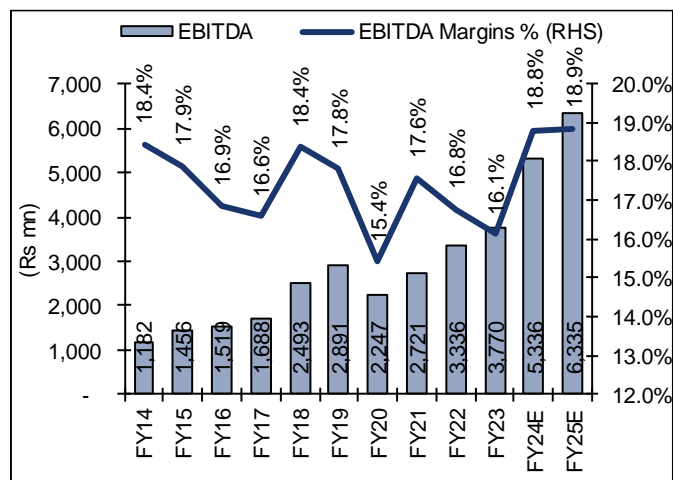
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Chart 1: Revenue growth to sustain at ~20% levels



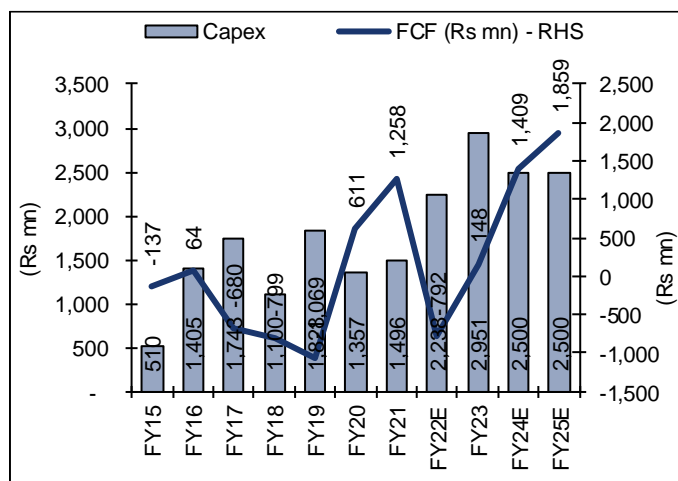
Source: Company data, I-Sec research

Chart 2: EBITDA margin to return to 18-19%



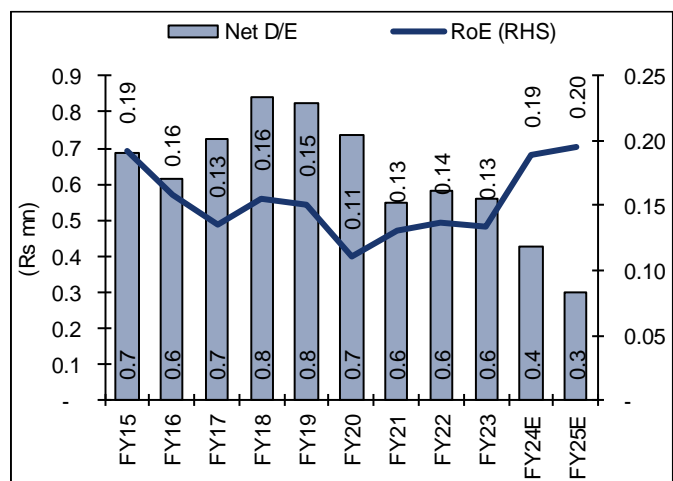
Source: Company data, I-Sec research

Chart 3: Controlled capex and rising EBIT leading to higher FCF



Source: Company data, I-Sec research

Chart 4: RoE moving towards 20% by FY25E



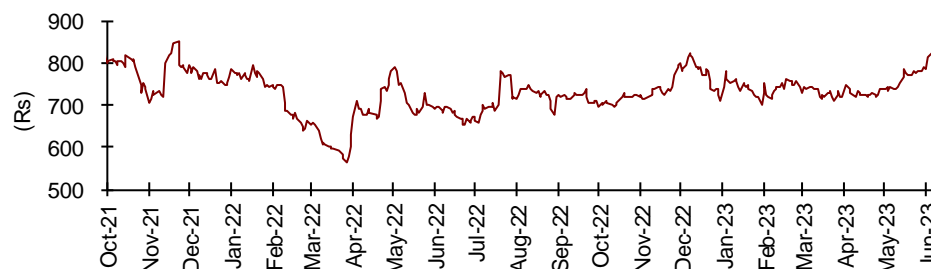
Source: Company data, I-Sec research

Table 1: Assumptions

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue	16,244	14,572	15,493	19,890	23,383	28,367	33,597
Auto	13,350	12,240	12,886	17,354	20,811	24,767	28,730
Non-Auto	1,849	1,691	1,685	2,546	2,806	3,600	4,867
EBITDA	2,891	2,247	2,721	3,336	3,770	5,336	6,335
EBITDA Margin (%)	17.8%	15.4%	17.6%	16.8%	16.1%	18.8%	18.9%
PAT	962	803	1,080	1,305	1,462	2,408	2,982
Capex/Sales	11.3%	9.3%	9.7%	11.3%	12.6%	8.8%	7.4%
FCF	-1,069	611	1,258	-792	148	1,409	1,859

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

## Financial summary (standalone)

**Table 2: Profit and Loss statement**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>Total Op. Income (Sales)</b>	<b>19,890</b>	<b>23,383</b>	<b>28,367</b>	<b>33,597</b>
<b>Operating Expenses</b>	<b>16,554</b>	<b>19,613</b>	<b>23,031</b>	<b>27,261</b>
<b>EBITDA</b>	<b>3,336</b>	<b>3,770</b>	<b>5,336</b>	<b>6,335</b>
% margins	16.8%	16.1%	18.8%	18.9%
Depreciation & Amortisation	1,197	1,301	1,594	1,794
<b>EBIT</b>	<b>2,139</b>	<b>2,469</b>	<b>3,742</b>	<b>4,541</b>
Other Income	155	178	196	216
Gross Interest	510	615	611	641
<b>PBT</b>	<b>1,784</b>	<b>2,032</b>	<b>3,327</b>	<b>4,116</b>
Less: Exceptionals	-	-	-	-
<b>PBT after Exceptionals</b>	<b>1,784</b>	<b>2,032</b>	<b>3,327</b>	<b>4,116</b>
Less: Taxes	465	549	898	1,112
Add: Profit from Associates	14	21	20	22
<b>Net Income (Reported)</b>	<b>1,305</b>	<b>1,462</b>	<b>2,408</b>	<b>2,982</b>
<b>Net Income (Adjusted)</b>	<b>1,305</b>	<b>1,462</b>	<b>2,408</b>	<b>2,982</b>

Source: Company data, I-Sec research

**Table 3: Balance sheet**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>ASSETS</b>				
<b>Current Assets</b>	<b>8,486</b>	<b>9,831</b>	<b>11,958</b>	<b>14,896</b>
Cash & cash eqv.	503	616	1,203	2,159
<b>Current Liabilities &amp; Provisions</b>	<b>3,750</b>	<b>4,078</b>	<b>4,894</b>	<b>5,796</b>
<b>Net Current Assets</b>	<b>4,736</b>	<b>5,753</b>	<b>7,064</b>	<b>9,100</b>
<b>Investments</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>105</b>
<b>Total Fixed Assets</b>	<b>13,619</b>	<b>14,693</b>	<b>15,599</b>	<b>16,304</b>
Capital Work-in-Progress	1,224	757	757	757
Other non-current asset	0	0	0	0
<b>Total Assets</b>	<b>18,460</b>	<b>20,551</b>	<b>22,767</b>	<b>25,509</b>
<b>LIABILITIES</b>				
<b>Borrowings</b>	<b>6,451</b>	<b>7,121</b>	<b>7,121</b>	<b>7,121</b>
long-term borrowings	2,335	2,630	2,630	2,630
short-term borrowings	4,116	4,491	4,491	4,491
Deferred Tax Liability Net	642	689	689	689
Other Non-current Liabilities	1,132	1,061	1,081	1,103
Equity Share Capital	104	106	106	106
Reserves & Surplus	10,130	11,573	13,770	16,490
<b>Net Worth</b>	<b>10,234</b>	<b>11,679</b>	<b>13,876</b>	<b>16,596</b>
<b>Total Liabilities</b>	<b>18,460</b>	<b>20,551</b>	<b>22,767</b>	<b>25,509</b>

Source: Company data, I-Sec research

**Table 4: 5-stage DuPont analysis**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>Tax Burden (Adjusted PAT/PBT)</b>	<b>73.1</b>	<b>71.9</b>	<b>72.4</b>	<b>72.5</b>
<b>Interest Burden (PBT/EBIT)</b>	<b>83.4</b>	<b>82.3</b>	<b>88.9</b>	<b>90.6</b>
<b>EBIT Margin (EBIT/Sales)</b>	<b>10.8</b>	<b>10.6</b>	<b>13.2</b>	<b>13.5</b>
<b>Asset Turnover (Sales/Total Assets)</b>	<b>107.8</b>	<b>113.8</b>	<b>124.6</b>	<b>131.7</b>
<b>Financial Leverage (Total Assets/Equity)</b>	<b>180.4</b>	<b>176.0</b>	<b>164.1</b>	<b>153.7</b>
<b>RoE</b>	<b>13.7</b>	<b>13.3</b>	<b>18.8</b>	<b>19.6</b>

Source: Company data, I-Sec research

**Table 5: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>Operating cashflow before working capital changes</b>	<b>3,476</b>	<b>3,929</b>	<b>5,532</b>	<b>6,551</b>
Net Working Capital Changes	(886)	(903)	(724)	(1,080)
Others	(441)	(502)	(898)	(1,112)
<b>Operating Cashflow</b>	<b>2,149</b>	<b>2,523</b>	<b>3,909</b>	<b>4,359</b>
Capital Commitments	(2,941)	(2,375)	(2,500)	(2,500)
<b>Free Cashflow</b>	<b>(792)</b>	<b>148</b>	<b>1,409</b>	<b>1,859</b>
<b>Cashflow from Investing Activities</b>	<b>(3,009)</b>	<b>(2,375)</b>	<b>(2,500)</b>	<b>(2,500)</b>
Issue of Share Capital	250	110	(20)	(22)
Inc/(Dec) in minority interest	14	21	20	22
Inc/(Dec) in borrowings	969	670	-	-
Dividend paid	(103)	(128)	(212)	(262)
Interest paid	(510)	(615)	(611)	(641)
Others	92	(92)	-	0
<b>Cashflow from Financing Activities</b>	<b>712</b>	<b>(35)</b>	<b>(822)</b>	<b>(903)</b>
<b>Net Cashflow</b>	<b>(148)</b>	<b>113</b>	<b>587</b>	<b>956</b>
<b>Opening Cash &amp; Bank balance</b>	<b>651</b>	<b>503</b>	<b>616</b>	<b>1,203</b>
<b>Closing Cash &amp; Bank balance</b>	<b>503</b>	<b>616</b>	<b>1,203</b>	<b>2,159</b>
<b>Increase / (Decrease) in Cash &amp; cash equivalents</b>	<b>(148)</b>	<b>113</b>	<b>587</b>	<b>956</b>

Source: Company data, I-Sec research

**Table 6: Key ratios**
*(Year ending March 31)*

	FY22	FY23	FY24E	FY25E
<b>Per Share Data (in Rs)</b>				
EPS (Basic)	25.4	28.5	46.9	58.0
EPS (Adjusted)	25.4	28.5	46.9	58.0
Cash EPS	48.7	53.8	77.9	93.0
Dividend per share (DPS)	2.0	2.5	4.1	5.1
BVPS (Adjusted)	201.5	230.1	273.2	326.6
<b>Growth Ratios (%)</b>				
Total Op. Income (Sales)	28	18	21	18
EBITDA	23	13	42	19
Net Income (Adjusted)	21	12	65	24
EPS (Adjusted)	21	12	65	24
Cash EPS	19	10	45	19
BVPS (Adjusted)	16	14	19	20
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	33.2	29.7	18.0	14.5
P/BV (Adjusted)	4.2	3.7	3.1	2.6
EV/EBITDA	14.8	13.2	9.2	7.6
EV/Sales	2.5	2.1	1.7	1.4

**Return/Profitability Ratios (%)**

EBITDA Margin	16.8	16.1	18.8	18.9
Net Income Margin (Adjusted)	6.6	6.3	8.5	8.9
RoCE	14.8	14.9	19.8	21.3
RoNW	13.7	13.3	18.8	19.6
Dividend Payout Ratio	7.9	8.8	8.8	8.8
Dividend Yield	0.2	0.3	0.5	0.6

**Solvency/Wkg. Cap. Ratios (x)**

Net D/E	0.6	0.5	0.4	0.3
Gross Debt/EBITDA	1.9	1.9	1.3	1.1
EBIT/Interest	4.2	4.0	6.1	7.1
Current Ratio	2.3	2.4	2.4	2.6
Quick Ratio	1.5	1.5	1.6	1.7
Inventory (days)	51	58	55	55
Receivables (days)	75	68	65	65
Payables (days)	49	46	45	45

Source: Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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