



SMC Ranking

★ ★ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Automobile
Offer for sale (Shares)	17,244,328
Net Offer to the Public	17,244,328
Employee reservation	120,968
Employee Discount	Rs.36
Issue Size (Rs. Cr.)	1265-1283
Price Band (Rs.)	734-744
Offer Date	14-Sep-21
Close Date	16-Sep-21
Face Value	2
Lot Size	20

Issue Composition

	In shares
Total Issue for Sale	17,123,360
QIB	8,561,680
NIB	2,568,504
Retail	5,993,176

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	43.91%	36.56%
QIB	56.09%	46.54%
NIB	0.00%	5.00%
Employee reservation	0.00%	0.24%
Retail	0.00%	11.66%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

- To carry out the Offer for Sale of up to 17,244,328 Equity Shares by the Selling Shareholders; and
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

Book Running Lead Manager

- ICICI Securities Limited
- IIFL Securities Limited
- Nomura Financial Advisory and Securities (India) Private Limited

Name of the registrar

- Link Intime India Private Ltd

About the company

Incorporated in 1981, Sansera manufactures complex and critical precision engineered components and caters across automotive and non-automotive sectors. The company manufactures and supplies a wide range of precision forged and machined components and assemblies which are critical for the two-wheeler, passenger vehicle, and commercial vehicle verticals for the automotive sector. For the non-automotive sector, the company manufactures and supplies a wide range of precision components for aerospace, off-road, agriculture, and other segments. The company mostly supplies forged & machined products to OEM's. For FY'21, the Automotive sector contributed 88.45% and non-automotive 11.45% of the revenue. The company derives around 65% of its revenue from India and the rest 35% from other countries. The company is one of the major suppliers of connecting rods globally. The company has 15 manufacturing plants across India of which 9 are in Bangalore.

Strength

A leading supplier of complex and high-quality precision engineered components that is gaining market share across automotive and non-automotive sectors: The company's market position is the result of its established presence in the precision components manufacturing industry and its ability to manufacture and supply complex, high-quality precision components according to their customers' specifications. Further, it is the single source supplier for certain components to select OEM companies in India and globally. As at July 31, 2021; it has been awarded business from 35 customers in the automotive sector and from 21 customers in the non-automotive sector across its product portfolio, where the start of production is either during or after Fiscal 2021.

Well diversified business model: Its business model is well diversified by customer base, end segment, geographical spread of revenues and product portfolio. It has a diversified and increasing customer base. Within India, its customers include nine of the top 10 two-wheeler OEMs and the leading passenger vehicle OEM based on production volume for Fiscal 2021. Globally, its customers include six out of top 10 global Light Vehicle OEMs and three of the top 10 global MHCV OEMs based on production volumes for CY 2020. It derives its 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. It has focused on increasing its export revenues with a view to reduce dependence on the Indian market. Its revenues from sale of products are geographically diversified with Europe, USA and other foreign countries accounting for 35.02%, 30.62% and 31.00% of its revenue from sale of products in Fiscals 2021, 2020 and 2019, respectively.

Advanced capabilities in design and engineering: The company is engineering-led in its capabilities, with integrated operations across the product manufacturing cycle. As of July 31, 2021, it had a team of 201 personnel working on design, engineering, machine building, automation and technical support functions. Its engineering capabilities enable the company to design new products from statements of requirements, validate its designs through software using FEA (finite element analysis), develop prototypes and perform relevant testing to confirm design robustness, all of which increase opportunities for it to secure higher value-added business with its customers and enables it to deepen its customer relationships through cost optimisation and reductions in development and testing time. The company manufactures advanced CNC SPMs, including automated

cells, four station SPMs, vertical honing machines, double disc grinding machines, internal grinding machines, laser cracking machines, trumpet-form hole machines, balancing machines and laser structuring machines, which are deployed across its manufacturing facilities. Its automation capabilities enable it to combine operations and eliminate multiple operators in the production process in order to increase productivity, while controlling costs and maintaining consistent product quality

Long-standing relationships with well-known Indian and global OEM customers: Within India, its customers include nine of the top 10 two-wheeler OEMs and the leading passenger vehicle OEM based on production volume for Fiscal 2021. Globally, its customers include six out of top 10 global Light Vehicle OEMs and three of the top 10 global MHCV OEMs based on production volumes for CY 2020. It has long-standing relationships with several well-known Indian and global OEMs. Specifically, (i) in the two-wheeler vertical we have relationships of 25 fiscal years with Bajaj, over 20 years with Yamaha and over 20 years with HMSI, the third, fifth and second largest two-wheeler Indian OEMs in terms of domestic production volume for Fiscal 2021, respectively

Strategy

Consolidate and strengthen global market share in its existing automotive product portfolio and diversify into new products to cater to the expected increase in electrification of vehicles:

The company intends to focus on consolidating its leading market share, both globally and in India across its existing product portfolio. Its long-standing experience in supplying most complex and critical engine and transmission components makes it well positioned to diversify into other segments such as suspension, braking, steering, chassis and other systems within the automotive sector. Its recent foray into suspension products such as stem comp and scale up of this business over the last couple of years further corroborates its ability to continually diversify its business. Further, it intends to develop multiple technology driven systems and components to cater to growing opportunities in electrification of vehicles. It is in the process of setting up a dedicated facility for hybrid and electric components in Plant 2 and it expects this facility to be commissioned during Fiscal 2022.

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

With a track record of developing complex and critical precision engineered components for the automotive sector over multiple decades, it believes its manufacturing capabilities can be extended to manufacture precision components for several nonautomotive segments, such as aerospace, off-road, agriculture and engineering and capital goods. Further, its existing key product families in the automotive sector have multiple applications across various non-automotive sectors. Within the non-automotive segment, it primarily focuses on manufacturing precision engineered components that require complex engineering capabilities, resulting in high value addition by the company.

Retain and strengthen its technological leadership through continued focus on its engineering capabilities:

Its customers' demand for higher performance and top-quality products is growing. In response to this, it has placed emphasis on continually improving its design and engineering capabilities so that it can focus on providing high value-added and technology-driven components, which it expects, will present it with opportunities to capture shifts in customer preferences as well as evolving regulatory requirements, such as heightened emissions control standards. Further, this would increase opportunities for it to become a preferred supplier to its customers, thus giving it the opportunity to consolidate its position with its customers.

Focus on operational efficiencies to improve returns:

Sansera has able to deliver a RoCE of 15.11%, 12.88% and 19.36% for Fiscals 2021, 2020 and 2019, respectively, in challenging market conditions. Its operations are integrated across the product cycle, and almost all of its manufacturing processes (encompassing forging, heat treatment and machining) are carried out in-house. This allows the company to respond quickly and efficiently to any customer requirements or changes in product specifications without needing to depend on any external vendors. This helps the company closely to monitor product quality, production costs and delivery schedules. It has a automated a number of its forging and machining operations and as at July 31, 2021, it has more than 130 robots

installed across all its manufacturing facilities in India.

Risk factors

- It does not have firm commitment long-term supply agreements with its customers.
- Its business is dependent on the sale of its products to certain key customers.
- Development of technologically advanced products involves a lengthy and expensive process with uncertain timelines and outcomes.
- It derives a substantial portion of its revenue from its key product families, especially connecting rods.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Bharat Forge	6336.26	-126.38	9.93	77.82	6.65	116.28	2	772.75	35978.36
Sundram Fasten.	3546.25	359.18	24.06	35.81	7.71	111.70	1	861.70	18106.76
Motherson Sumi	56951.31	1039.13	6.91	30.54	5.31	39.77	1	211.05	66648.20
Suprajit Engg.	1640.86	142.71	13.58	23.02	4.37	71.51	1	312.55	4324.83
Minda Industries	6373.74	206.63	12.28	56.62	6.72	103.54	2	695.35	19860.62
Mahindra CIE***	6050.11	106.43	8.41	26.15	1.66	132.69	10	219.90	8335.33
Endurance Tech.	6547.02	519.71	47.72	33.48	6.31	253.24	10	1597.45	22470.19
Sansera Engineering Limited	1549.27	109.86	21.38	34.79	4.30	172.98	2	744.00	3822.51

***202012 (Year ended on December)

Valuation

Considering the P/E valuation on the upper price band of Rs.744, EPS and P/E on FY2021 are Rs.21.38 and 34.79 multiple respectively and at a lower price band of Rs. 734, P/E multiple is 34.33 Looking at the P/B ratio on the upper price band of Rs.744, book value and P/B on FY21 are Rs. 172.98 and 4.30 multiple respectively and at a lower price band of Rs. 734 P/B multiple is 4.24. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

Industry overview

Overall domestic two-wheeler production is expected to grow at a robust pace of 10.9% CAGR over Fiscals 2021-26 to reach approximately 31.0 million units by Fiscal 2026. Domestic sales and exports are estimated to grow at 11.2% and 9.5% CAGR, respectively, during this period. However, the risk of subsequent waves of COVID-19 cases and the need for the state and central governments to impose localised or extensive lockdown to control spread of pandemic may have an impact on supply chains as well as sales volumes. In such a case, overall industry production is also likely to be impacted over the short term. Domestic sales volume (80-85% of total production) is estimated to grow at a 11.2% CAGR over the five-year period, after declining 18% on-year in Fiscal 2020 and 13% in Fiscal 2021. Higher GDP growth and lower inflation would boost domestic sales volume, led by better affordability with a rise in disposable incomes. Rising income will be further aided by better rural connectivity and rising women workforce in urban and rural areas. The under-penetrated rural market is likely to be the key growth segment for the two-wheeler industry. Preference to personal mobility on account COVID-19 pandemic will also support demand over the short to medium term till a time reliable solution to COVID-19 pandemic becomes widely available. CRISIL Research expects two-wheeler exports from India to grow at a CAGR of 9.5% over Fiscals 2021- 2026 compared with 5% between Fiscals 2016-2021. While expanding geographical footprints and extensive product portfolios would drive growth, crude oil prices and currency fluctuations in export markets will remain key monitorables. Moreover, government initiatives to make India an exports hub, along with policies, such as production-linked incentive (PLI), provide further impetus to two-wheeler exports. Even in case of export, OEM sales are likely to come under pressure in case of a worsening of the COVID-19 situation in key export markets.

Outlook

The Company is a leading engineering-led integrated manufacturer of complex and critical precision engineered components across automotive and non-automotive sectors. Company has an active pipeline of products under development, including (1) suspension and drive train components for electric two-wheelers, (2) braking system components for passenger vehicles, (3) machined engine casings for aerospace and (4) components for power transmission within non-automotive applications. However, the company derives a substantial portion of their revenue from its key product families, especially connecting rods, and if these products become obsolete it would have a material adverse effect on their business, financial condition, results of operations and cash flows. On the sectoral front, seasonal or economic cyclicalities coupled with reduced demand in the verticals and sectors can impact the company business. Moreover, the issue is offer for sale, hence fund raised will not come to the company. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Sept 14, 2021
Bid/Offer Closing Date	Sept 16, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Sept 21, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Sept 22, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Sept 23, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Sept 24, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)	31-Mar-19 (12 Months)
Revenue from operations	1,549.27	1,457.17	1,624.43
Total expenditure	1,277.15	1,232.47	1,335.33
Operating Profit	272.12	224.70	289.10
OPM%	17.56	15.42	17.80
Other Income	23.09	15.97	16.38
PBDIT	295.21	240.67	305.48
Depreciation	101.68	93.90	75.754
PBIT	193.54	146.77	229.72
Interest	47.39	58.09	51.28
PBT	146.15	88.68	178.44
Exceptional items	N.A	N.A	13.49
Profit before Tax	146.15	88.68	164.95
Tax	36.29	8.77	66.89
Profit After Tax	109.86	79.91	111.55

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-21	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	1000.01	942.13	889.07
Capital work-in-progress	60.42	68.34	48.86
Goodwill	35.84	32.36	32.42
Other intangible assets	1.92	2.57	3.25
Right of use assets	89.24	87.30	89.66
Financial Assets	0.00	0.00	0.00
Investments	3.69	3.69	0.00
Other financial assets	28.45	26.71	25.73
Deferred tax assets (net)	1.41	3.48	3.42
Income tax assets (net)	2.71	2.93	6.25
Other non-current assets	22.47	20.47	22.70
Total non-current assets	1246.16	1189.98	1121.37
Current assets			
Inventories	248.57	238.92	243.46
Financial Assets	0.00	0.00	0.00
Investments	0.56	0.35	0.53
Trade Receivables	312.98	259.12	271.24
Cash and Cash Equivalents	36.50	60.01	23.93
Bank balance other than cash and cash equivalents	28.64	11.64	7.67
Other Financial Assets	22.28	23.65	25.65
Other Current Assets	33.19	44.57	51.64
Total current assets	682.73	638.26	624.12
Total Assets	1928.88	1828.24	1745.48
Non-current liabilities			
Financial liabilities			
Non-current borrowings	187.652	171.83	213.38
Lease liabilities	81.028	78.86	80.57
Other financial Liabilities	0	1.10	7.69
Non-current provision	15.183	12.69	8.58
Deferred Tax Liabilities (Net)	61.80	55.23	70.30
Other non-current liabilities	46.72	42.59	42.13
Total non-current liabilities	392.38	362.29	422.66
Current liabilities			
Financial liabilities			
Current borrowings	255.23	355.41	304.31
Lease liabilities	11.09	9.69	8.65
Trade payables	0.00	0.00	0.00
Total outstanding dues of micro enterprises and small enterprises	8.64	6.72	9.12
total outstanding dues of creditors other than micro enterprises and small enterprises	218.41	166.17	177.45
Other financial liabilities	123.67	121.83	100.24
Current tax liabilities (net)	0.06	2.95	8.25
Other current liabilities	20.76	16.45	13.76
Current Provisions	9.91	9.85	6.54
Total current liabilities	647.77	689.09	628.31
Total	1040.14	1051.38	1050.97
NET Worth	888.74	776.86	694.52
Net worth represented by:			
Share capital	9.39	9.39	9.39
Instruments entirely in the nature of equity	10.50	10.50	10.50
Other Equity	858.36	748.29	665.50
Non controlling interests	10.50	8.68	9.14
Net Worth	888.74	776.86	694.52

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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