

February 23, 2023^(Revised)

Sansera Engineering Limited: Ratings reaffirmed/assigned for BLR and assigned for Non Convertible Debenture programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund Based – Term Loan	255.85	395.26	[ICRA]AA- (Stable); reaffirmed/assigned
Short term - Fund Based – Working Capital Facilities	409.50	519.50	[ICRA]A1+; reaffirmed/assigned
Short term - Non-fund Based Working Capital Facilities	42.40	42.40	[ICRA]A1+; reaffirmed
Non Convertible Debenture (NCD) Programme	0.00	100.00	[ICRA]AA- (Stable); assigned
Long term/Short term – Unallocated	117.25	2.84	[ICRA]AA- (Stable)/ [ICRA]A1+; reaffirmed
Total	825.00	1060.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers the established position of Sansera Engineering Limited (Sansera / the company) in the precision forged and machined components space, catering primarily to automotive segment, which accounted for ~89.0% of the revenues in 9m FY2023. The ratings also continue to consider the promoters' experience of over 30 years in the auto industry and the increasing share of business with existing customers and the addition of new customers, which is likely to support revenues going forward.

On a consolidated basis, Sansera witnessed a revenue growth of 27.9% in FY2022 supported by recovery in domestic demand, healthy demand from export markets (34.7% growth in FY2022), price hikes received from the OEMs and increase in share of business from existing customers and new customer acquisitions done by the company. Despite the healthy revenue growth, the company experienced challenges related to rising raw material prices, higher employee costs, and a decline in operating margins at its Sweden facility, which led to a contraction of operating margin by 120 basis points to 17.2% in FY2022. During 9m FY2023, Sansera witnessed revenue growth of ~21.7%; however, the OPBDITA margin contracted by 50 basis points to 16.4% due to muted exports, a segment which typically generates higher margins. Despite these challenges, Sansera continues to outpace industry growth supported by its healthy geographical and customer diversification, expanding wallet share with existing customers, and a track record of adding new products and customers. Currently, Sansera derives ~78.8% of the revenue from engine and transmission components for Auto Internal Combustion Engine (ICE) segment and to mitigate the risk of impending EV transition, company is focusing to diversify more into Non-Automotive and Auto-Tech agnostic & xEV segment. The company has been able to secure orders from reputed customers in xEV segment and revenue contribution from xEV which increased to 3.3% in 9m FY2023 from 0.4% in FY2022. Currently, ~51% of the company's orderbook is derived from the Non-Automotive and Auto-Tech agnostic & xEV segment and out of the planned capex, majority will be allocated towards these segments which is expected to augur well for the company as the industry transitions increasingly to EV.

The rating strengths are partially offset by the customer concentration risk with the top five clients contributing to 52.4% of Sansera's revenues in 9m FY2023 (53.9% in FY2022 and 59.2% in FY2021) and the inherent cyclicity in the auto components industry. Although the company experienced robust revenue growth during FY2022, its OPBDITA margin contracted due to

optical impact of higher raw material prices and employee expenses. During 9m FY2023, the company's international sales contracted by 6.8% on a YoY basis, with European sales declining by about 11.1% during the same period on the account of subdued performance in Sweden facility, energy crisis in Europe, recessionary fears and chip supply shortage to an extent. The movement of raw material prices and the recovery of higher margin export sales will be a key determinant of the company's margin trajectory going forward. The impending electrification of automotive industry is expected have a bearing on the company's revenues over the medium term, given that Sansera currently derives ~78.8% (9m FY2023) of its revenues from the engine and transmission components of the Auto ICE segment. While the transition to EV is expected to be very gradual in the PV segment, the threat is relatively higher in the 2w segment which currently accounts for ~45% of the company's revenues. However, the company's efforts to diversify more into Non-Automotive and Auto-Tech agnostic & xEV segment mitigate the risk to an extent and ~51% of the current orderbook of ~Rs. 1,500 crore is comprised of these segments. The company's debt levels have remained high with sizeable capability and capacity expansion over the years. Consequently, the company debt metrics also remain moderate with company's Net debt/ OPBDITA (excl. lease impact) at 1.6x and Net gearing (excl. lease impact) at 0.6x as on September 30, 2022.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that Sansera will continue to benefit from its established customer relationships in both domestic and export markets, strong market position in the automotive industry, diversified geographical and segmental presence, its focus on increasing revenue from Auto-Tech agnostic & xEV and non-Automotive segment and the expected improvement in its financial profile with improving credit metrics and margins and adequate liquidity position.

Key rating drivers and their description

Credit strengths

Long-term relationships with major OEMs with healthy wallet share aid business stability – Sansera has established relationships with major 2W and 4W original equipment manufacturers (OEMs) in India for the supply of auto components such as connecting rod, rocker arm, crankshaft assembly, gear shifter fork, etc., and enjoys single source supplier status for certain components. This, in turn, has supported the company's healthy revenue growth momentum over the past few years. By leveraging these well-established relationships and proven track record of its capabilities, company has been able to add reputed customers to its customer base in the growing EV space. Overall, wallet share from OEMs for its existing products has been stable and is expected to increase driven by contribution from new products, in turn supporting the business prospects for the company going forward.

Healthy revenue growth and margins in FY2022 and 9m FY2023– During FY2022, the company experienced a revenue growth of 27.9% despite challenges in the industry such as raw material inflation, supply chain disruptions and semiconductor chip shortage. OPBDITA increased from Rs.287.4 crore in FY2021 to Rs.343.9 crore in FY2022, although operating margins contracted by 120 bps to 17.2% due to rising raw material prices, higher employee costs, and a decline in operating margins at its Sweden facility. During 9m FY2023, revenue grew by ~21.7%, however, the operating margin contracted by 50 basis points to 16.4% due to a decline in exports, a segment which typically generates higher margins. The decline in exports was attributed to the subdued performance in the Sweden facility, energy crisis in Europe, recessionary fears and chip supply shortage to an extent. The company has been able to pass on the increasing raw material costs to its customers, which helped to maintain profitability in absolute terms but affected the profitability margins to some extent. Going forward, the company's ability to continue growing at a healthy rate while improving its debt metrics and maintaining healthy profit margins will be monitorable.

Strong promoter background – Sansera has a strong promoter background with the promoters having over 30 years of experience in the auto component industry. Also, the majority of the senior management team has been with Sansera for more than 10 years, contributing to its growth.

Credit challenges

Elevated debt levels impacting coverage indicators; however, healthy operating accruals support debt indicators to a certain extent – The company's total debt (excluding lease) increased to Rs. 668.1 crore as on September 30, 2022 from Rs. 645.1 crore as on March 31, 2022, and Rs. 548.3 crore as on March 31, 2021 owing to the debt-funded capex in the past, the ongoing capex programme and its increasing scale. Company currently has new orders aggregating to ~Rs. 1,500 crore of annual peak revenue and the ongoing capex is being allocated to execute these orders. Its net debt/OPBDITA (excluding lease impact) and net gearing (excluding lease impact) stood at 1.7x and 0.6x, respectively, as on September 30, 2022 and the interest cover was 7.0x in H1 FY2023. Going forward, the company will avail additional debt to fund its capex programme; however, the capitalisation and coverage indicators are likely to improve marginally, aided by scheduled repayments and healthy operating accruals.

High customer concentration– With the top five customers contributing to 53.9% to the revenues in FY2022 (59.2% in FY2021), the customer concentration risk remains high. Customer concentration reduced in FY2022 aided by the addition of new customers and increase in the wallet share of existing customers, which is further expected to support diversification going forward.

Exposed to cyclicity in automotive industry, part revenues also prone to threat from EV – Sansera derived ~89% of its 9m FY2023 revenues from the automotive segment, exposing its revenues to the cyclicity in demand from the automotive segment. However, this risk is partially mitigated by the company's revenues from other segments, such as off-road and aerospace, and its ongoing efforts to increase the contribution from these segments. To mitigate the risk of impending EV transition to its Auto ICE segment, company is focusing to diversify more into Non-Automotive and Auto-Tech agnostic & xEV segment. During 9m FY2023, the revenue mix changed to 79% from Auto-ICE (83% during FY2022) and 21% from Non-Automotive and Auto-Tech agnostic & xEV segment (17% during FY2022). Currently, ~51% of the company's orderbook is derived from the Non-Automotive and Auto-Tech agnostic & xEV segment and out of the planned capex, majority will be allocated towards these segments which is expected to augur well for the company as the industry transitions to EV. In line with this, Sansera recently completed the construction of the new aerospace and defence facility which has potential to generate revenues of Rs 350 crore. Additionally, Sansera's focus on increasing its wallet share with existing automotive OEMs and adding new customers provides some level of comfort against the cyclical nature of the automotive industry. The company's well-established relationships with major OEMs also help to reduce the risk to an extent.

Environmental and Social Risks

Environmental Considerations: Even though Sansera is not directly exposed to climate transition risks from the likelihood of tightening emission control requirements, its automotive manufacturing customers remain highly exposed to the same. Accordingly, company's prospects remain linked to the ability of its customers to meet tightening emission requirements. The company has been investing materially to develop components for electric vehicles (EVs), even as the EV transition is likely to be only gradual. As per disclosures in its FY2022 annual report, company has implemented many energy conservation projects as part of improving energy efficiency, energy performance and carbon footprint reduction, through ISO 50001:2018 (EnMS) and ISO 14001:2015 (EMS) certification across the manufacturing units in India. Also, company is targeting 55% green energy on PAN India basis and 90% utilization in Karnataka plants through various green energy contracts in FY2023.

Social considerations: Sansera, like most automotive component suppliers, has high dependence on human capital. Retaining human capital, maintaining healthy employee relationships and a safe work environment remain essential for disruption-free operations. The company's FY2022 annual report indicates that it has demonstrated its commitment to education initiatives which include Scholarship program, Science Kit support and 5S implementation in schools. Company also supported the healthcare initiatives during pandemic which included donation of ECG machine to Corona Primary Health Care Centre, donation of oxygen concentrators and supported Government Primary Healthcare centres.

Liquidity position: Adequate

Sansera's liquidity position is adequate with healthy retained cash flows in FY2022, cash balances and liquid investments of Rs. 35.0 crore as on December 31, 2022, and the availability of adequate buffer in the working capital facilities. At the standalone level, it had Rs. 86.5 crore buffer in working capital against drawing power of Rs. 469.5 crore as on December 31, 2022. Going forward, the company has debt repayment obligations of ~Rs.26.1 crore in Q4FY2023, Rs. 99.6 crore in FY2024 and Rs. 82.4 crore in FY2025 for its existing term debt. Sansera also plans to incur capex of ~Rs. 250 crore p.a. during FY2022 to FY2024. ICRA expects Sansera's liquidity position to remain adequate over the medium term and expects the company to meet its debt repayment through internal accruals and capex requirements through a mix of external borrowings and internal accruals.

Rating sensitivities

Positive factors – An upward movement in the rating could happen with sustained growth in revenues coupled with a notable improvement in the debt metrics and the return on capital employed on a sustained basis.

Negative factors – Pressure on Sansera's ratings could arise from lower-than-anticipated revenues on account of a persistent slowdown in industry demand or if a significant deterioration in the profit margins has an adverse impact on the debt coverage indicators on a sustained basis. Pressure on the ratings could also arise from the weakening of credit metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sansera; details in Annexure-2

About the company

Sansera, headquartered in Bengaluru, is primarily engaged in the machining of precision engine forged components for 4Ws, 2Ws and components for the aerospace industry. The company also manufactures connecting rods for medium and heavy commercial vehicles (M&HCVs). With negligible spare demand for its products, the company primarily caters to OEMs such as Bajaj Auto Limited, Honda Motorcycle and Scooter India Limited, Maruti Suzuki India Limited, Honda Cars India Limited, India Yamaha Motor Private Limited and Royal Enfield.

Sansera also exports components to reputed global OEMs such as Ducati Motor Holding S.P.A. (Italy), Fiat Powertrain (Italy), GM Daewoo Auto and Technology Co. (Korea), Harley-Davidson Motor Co. (USA), Polaris Industries Inc. (USA) and Piaggio (Italy). Sansera has 18 manufacturing plants, including 16 operational and one under construction in India and one in Sweden. It also has an engineering, design and development centre that employs software professionals for the in-house designing and development of machine tools used for the manufacture of auto components. The company manufactures CNC and non-CNC machine tools for in-house consumption, which helps in controlling costs while ensuring quality. It has a dedicated machine building facility where it manufactures its own special purpose machines. Further, Sansera has a heat treatment facility and a metallurgical lab. The company is listed on both BSE and NSE from September 24, 2021.

Key financial indicators (audited)

Particulars	FY2021	FY2022	9m FY2023
Operating Income (Rs. crore)	1,559.5	1,993.9	1,721.7
PAT (Rs. crore)	109.9	131.5	113.0
OPBDITA/OI (%)	18.4%	17.2%	16.4%
PAT/OI (%)	7.0%	6.6%	6.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.1	NA
Total Debt/OPBDITA (times)	2.2	2.2	NA
Interest Coverage (times)	5.8	6.5	6.4

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation.

* 9m FY2023 figs. are unaudited

Source: Company, ICRA Research; All ratios as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Feb 23, 2023	Dec 13, 2021	Nov 27, 2020	Aug 23, 2019	
1	Fund based – Term loans	Long term	395.26	300.1	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
2	Fund-based working capital	Short term	519.50	377.6	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
3	Non-fund based limits	Short term	42.40	15.2	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4	Non-Convertible Debenture	Long term	100.00	--	[ICRA]AA-(Stable)	--	--	--	
5	Unallocated	Long term/ Short term	2.84	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term Fund-based Limits – Working Capital	Simple
Long-term Fund-based Limits – Term Loans	Simple
Short-term Non-fund Based Limits	Very Simple
Non-Convertible Debenture	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2016 - FY2023	1.50% - 9.00%	FY2022 - FY2028	395.26	[ICRA]AA- (Stable)
NA	Working capital	FY2022 - FY2023	3.50% - 8.00%	--	519.50	[ICRA]A1+
NA	Non-fund based limits	FY2021 - FY2022	--	--	42.40	[ICRA]A1+
NA*	NCD	-	-	-	100.00	[ICRA]AA- (Stable)
NA	Unallocated	--	--	--	2.84	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company * Not placed currently

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sansera Sweden AB	100.00%	Full Consolidation
Sansera Engineering Private Limited, Mauritius	100.00%	Full Consolidation
Fitwel Tools and Forgings Private Limited	70.00%	Full Consolidation

Source: Company disclosures

Corrigendum

Document dated February 23, 2023, has been corrected with revisions as detailed below:

OPBDITA/OI (%) and PAT/OI (%) for 9m FY2023 in Key financial indicators table have been revised.

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