

January 28, 2025

Sansera Engineering Limited: Long-term rating upgraded; short-term rating reaffirmed; rating withdrawn for NCD programme

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	340.27	206.90	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable)
Short-term – Fund-based – Working Capital Facilities	599.50	644.50	[ICRA]A1+; reaffirmed
Short-term – Non-fund Based Working Capital Facilities	42.40	42.40	[ICRA]A1+; reaffirmed
Non-Convertible Debenture (NCD) Programme	100.00	-	[ICRA]AA (Stable); upgraded from [ICRA]AA- (Stable) and withdrawn
Long-term/Short-term – Unallocated	13.83	102.20	Long term rating upgraded to [ICRA]AA (Stable) from [ICRA]AA- (Stable); short term rating reaffirmed at [ICRA]A1+
Total	1096.00	996.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the long-term rating for Sansera Engineering Limited (SEL/the company) factors in the improvement in the company's credit profile following the equity fund raise in Q3 FY2025 and expectation that it would sustain going forward as well, supported by its strong business profile. The company raised Rs. 1,200 crore equity as a part of its qualified institutional placement (QIP), and the company has prepaid/repaid about ~Rs. 650 crore of the Rs. 700 crore earmarked for debt repayments, during Q3 FY2025. As a result, the company is net cash positive as of date, with sizeable, unencumbered cash and bank balances of over Rs. 400 crore and adequate buffer in undrawn working capital lines. ICRA expects the company's financial profile to remain strong, going forward, aided by its healthy revenues and accruals, despite sizeable capex plans over the medium term.

The ratings also draw comfort from SEL's diversified product profile, healthy domestic-export mix, established market position and healthy wallet share with customers. Its revenues grew by 19.5% in FY2024 and by 11.4% YoY in H1 FY2025, primarily aided by growth in tech agnostic and xEV (Electrical Vehicle) segments. Its operating margins remain strong at 16.9% in FY2024 (PY: 16.7%) and 17.3% in H1 FY2025 (PY: 17.2%), supported by its relatively high value addition, increasing proportion of exports, operating leverage benefits and cost-optimisation measures. The company's revenue growth is expected to remain healthy going forward as well, supported by its established relationships with its customers and healthy order book. SEL's pending order book position was over Rs. 2,000 crore as on September 30, 2024, fairly diversified across auto internal combustible engine (ICE), xEV and non-auto segments, and from both domestic and overseas markets.

The rating strengths are partially offset by SEL's relatively high dependence on 2Ws (43% of revenues in H1 FY2025) and moderate customer concentration. These expose the company to risks arising from any sustained downturns in the Indian 2W segment and underperformance of the top customers or loss of customers to competition. Nevertheless, reducing proportion of revenues from the 2W segment mitigates the risk to an extent. Also, ~73% of its revenues in H1 FY2025 came from the auto-ICE segment, which is susceptible to the risks arising from electrification of the automotive industry. However, the company's focus on expanding its pie of non-automotive, auto-tech agnostic and xEV segment revenues mitigates the risk to an extent. The company has capex plans of over Rs. 250 crore in H2 FY2025 and annual capex plans of Rs. 400 crore in FY2026 and FY2027 towards upgradation and expansion of its existing facilities. While the capex is significant, ICRA draws comfort from the

anticipated healthy accruals from the business and absence of sizeable incremental debt funding, which are likely to support its capital structure and coverage metrics, going forward.

The 'Stable' outlook on the long-term rating reflects ICRA's expectation that the company will be able to sustain its credit profile and debt metrics, supported by its strong business position, healthy cash accruals and adequate liquidity, despite sizeable capex plans.

The rating assigned to the NCD programme of SEL has been withdrawn at the request of the company and in accordance with ICRA's policy on withdrawal of the credit rating, as there are no obligations outstanding against the rated instrument.

Key rating drivers and their description

Credit strengths

Well established market position; healthy wallet share with customers – SEL has established relationships with major 2W and Passenger Vehicle/Commercial Vehicle original equipment manufacturers (OEMs) in India and overseas markets. It has a healthy share of business with its major customers along with a track record of getting repeat orders periodically. The company is among the largest suppliers of connecting rods and rocker arms for the two-wheeler (2W) and light vehicle segments, and the largest supplier of gear shifter forks for the 2W segment in India. It also enjoys single source supplier status for several components. In the international markets, SEL is among the leading suppliers of connecting rods for light vehicles and CVs. By leveraging these established relationships and proven track record of its capabilities, the company has been able to add reputed customers in the growing EV space as well.

Diversified product profile; healthy domestic-export mix – SEL has a product portfolio of more than 80 components. In the auto segment, the company manufactures connecting rods, crankshaft assembly and rocker arms among others. For the non-automotive segment, SEL manufactures seating, lighting, cargo systems, aerostructure, door assembly, and actuation systems categories in the aerospace segment, among other products. The diversified product profile mitigates product specific risks to a large extent. Further, the company derives a material portion of its revenues from exports (~30% of its revenues in H1 FY2025), mitigating region specific risks to an extent and providing geographical diversification. The share of exports is likely to increase, going forward, as indicated by the current order book.

Healthy revenue growth in FY2024 and H1 FY2025; strong order book position – SEL's revenues grew by 19.5% in FY2024 and by 11.4% in H1 FY2025 on a YoY basis, primarily aided by growth in tech agnostic and xEV segment. It also enjoys single source supplier status for several components, which has supported healthy revenue growth. Its operating margin remain strong at 16.9% in FY2024 (PY: 16.7%) and 17.3% in H1 FY2025 (PY: 17.2%), supported by its relatively high value addition, increasing proportion of exports, operating leverage benefits and cost-optimisation measures. The company's revenue growth is expected to remain healthy, going forward as well, supported by its established relationships with its customers and strong order book. SEL's pending order book position stood at over Rs. 2,000 crore as on September 30, 2024, fairly diversified across auto ICE, xEV and non-auto segments, and from both domestic and overseas markets.

Comfortable financial risk profile – The company's capital structure and coverage metrics have improved significantly post the recent QIP of Rs. 1,200 crore in Q3 FY2025. The company is net cash positive as of date, with sizeable, unencumbered cash and bank balances of over Rs. 400.0 crore and adequate buffer in undrawn working capital lines. ICRA expects the financial risk profile and debt metrics to remain strong, going forward as well, supported by its healthy accruals, despite its sizeable capex plans over the medium term.

Credit challenges

Relatively high dependence on 2Ws; moderate customer concentration – SEL derives 43% of its revenues from the domestic 2W industry and its top five customers contributed ~46% to revenues in H1 FY2025. These expose the company to risks arising

from downturns in the Indian 2W segment and to underperformance of the top customers or loss of customers to competition. However, the company's proportion of revenues from the 2W segment has reduced, and it has increased its presence in the non-auto and xEV segments with addition of new customers, in both the domestic and export markets. The ability to achieve significant segment and customer diversification over the medium term remains a monitorable.

Impending electrification of automotive industry may impact revenues; however, gradual improvement in xEV and non-auto segment revenues to mitigate the risk to an extent – SEL derived 89.5% of its revenues in H1 FY2025 from the automotive sector, exposing its revenues to the cyclicity in demand from the segment. In addition, 73.4% of its revenues in H1 FY2025 came from the auto-ICE segment, which is susceptible to the risks arising from electrification of the automotive industry. However, the company's focus on expanding its pie of non-automotive, auto-tech agnostic and EV segment revenues and reduction in auto ICE revenue proportion, from the highs of 87.9% in FY2020, mitigates the risk to an extent. In H1 FY2025, the company derived 10.5% of its revenues from the non-automotive segment and 16.1% from the auto-tech agnostic segments, with both segments showing a steady increase in proportion over the years. As of September 30, 2024, ~51% of the company's order book was derived from the non-automotive, auto-tech agnostic and xEV segments.

Sizeable capex plans over the medium term – The company has capex plans of over Rs. 250 crore in H2 FY2025 and annual capex plans of Rs. 400 crore in FY2026 and FY2027, towards upgradation and expansion of existing facilities. The capex is largely expected to be funded through internal accruals. While the capex is significant, ICRA draws comfort from the anticipated healthy accruals from the business and absence of sizeable incremental debt funding, which are likely to support its capital structure and coverage metrics, going forward.

Environmental and Social Risks

Environmental considerations – SEL, being an auto component supplier, remains exposed to climate transition risks because its automotive OEM customers' products are used across different fuel power trains. Accordingly, the company's prospects remain linked to the ability of its customers to meet strict emission requirements. The company also remains exposed to tightening environmental regulations regarding waste and pollution norms, which can increase the operating costs and new capacity instalment costs. However, SEL has been taking steps to minimise its carbon footprint by enhancing its reliance on renewable sources and other energy saving efforts such as adoption of energy efficient fixtures/equipment and water recycling.

Social considerations – SEL, like most automotive component suppliers, has high dependence on human capital. Attracting and nurturing skilled manpower are critical as it seeks to keep pace with innovation and technological changes. Maintaining healthy relationships with employees and a safe work environment remain essential for disruption-free operations. On the product front, vehicle recalls by OEMs because of defective auto parts could create additional cost burden and liabilities. The company is also exposed to changing consumer preferences, including but not restricted to increasing awareness of the potential environmental damage from emissions, shift towards EVs, usage of sustainable materials and societal trends like a preference for ride sharing.

Liquidity position: Adequate

SEL's liquidity position is adequate, characterised by healthy anticipated cash flows, unencumbered cash and bank balances of over Rs. 400 crore as on date and the availability of significant buffer in working capital facilities. Against these sources of cash, the company has scheduled repayment of Rs. 31.3 crore, Rs. 73 crore and Rs. 58 crore for its existing term loans in Q4 FY2025, FY2026 and FY2027, respectively. The company has a capex plan of over Rs. 250 crore in H2 FY2025 and annual capex of Rs. 400 crore in FY2026 and FY2027, towards upgradation and expansion of existing facilities, to be funded largely by internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade SEL’s ratings if the company demonstrates sustained and significant improvement in its scale of operations and profitability, along with business diversification, while maintaining strong debt protection metrics.

Negative factors – Pressure on SEL’s ratings could arise from sustained weak performance, resulting in a sharp deterioration in earnings, or sizeable debt-funded capex, dividend payout or a stretch in the working capital, leading to significant weakening of liquidity or coverage metrics. Specific metrics that could trigger ratings downgrade could include Total debt/OPBITDA > 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto Components Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SEL. As on December 31, 2024, the company had three subsidiaries (enlisted in Annexure-II).

About the company

SEL is a tier-I supplier and manufactures precision engine forged components including connecting rods, crankshaft assembly and rocker arms among other products for the automotive (2Ws, PVs and CVs) and non-automotive sectors (aerospace, agriculture). About 73.4% of revenues was derived from auto ICE segment, while 16.1% and 10.5% came from auto tech agnostic and xEV segment and non-automotive segment, respectively in H1 FY2025. Further, it derived ~70% of its revenues from the domestic market (no revenues from replacement segment), and ~43% was from 2Ws in H1 FY2025. SEL has 17 manufacturing plants, including 16 facilities spread across India and one in Sweden. The promoters currently own 30.3% stake in the company (as of December 31, 2024), while public and institutional investors hold 11.6% and 58.5% respectively.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,347.9	2,805.6
PAT	148.3	187.0
OPBDIT/OI	16.7%	16.9%
PAT/OI	6.3%	6.7%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	2.1	1.9
Interest coverage (times)	6.1	6.0

Amount in Rs. Crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jan 28, 2025	Feb 28, 2024	Feb 23, 2023	Dec 13, 2021
1 Fund Based – Term Loan	Long term	206.90	206.90	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2 Fund Based – Working Capital Facilities	Short term	644.50	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Non-fund Based Working Capital Facilities	Short term	42.40	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Non Convertible Debenture(NCD) Programme	Long term	100.00	--	[ICRA]AA (Stable); Withdrawn	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	--
5 Unallocated Limits	Long term /Short term	102.20	--	[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
Long-term Fund-based Limits –Term Loans	Simple
Short-term Fund-based Limits –Working Capital	Simple
Short-term Non-fund Based Limits	Very Simple
Non-Convertible Debenture	Very Simple
Long-term/ Short-term Unallocated Limits	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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan I	FY2016 -FY2025	-	FY2022 -FY2031	160.00	[ICRA]AA (Stable)
NA	Term Loan II	Dec 2021	-	FY2027	46.23	[ICRA]AA (Stable)
NA	Term Loan III	FY2019-FY2020	-	FY2025	0.70	[ICRA]AA (Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	644.50	[ICRA]A1+
NA	Non-fund Based Working Capital Facilities	-	-	-	42.40	[ICRA]A1+
NA*	Non-Convertible Debenture	-	-	-	100.00	[ICRA]AA (Stable); Withdrawn
NA	Unallocated Limits	NA	NA	NA	102.20	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company; *Not Placed

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

Annexure II: List of entities considered for consolidated analysis

Company Name	SEL Ownership	Consolidation Approach
Sansera Engineering Limited	NA	Full Consolidation
Sansera Engineering Private Limited, Mauritius	100%	Full Consolidation
Sansera Sweden AB	100%	Full Consolidation
Fitwel Tools and Forgings Private Limited	70%	Full Consolidation

Source: SEL annual report FY2024 and H1 FY2025 results

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