

February 28, 2024^(Revised)

Sansera Engineering Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	395.26	340.27	[ICRA]AA-(Stable); reaffirmed
Short-term – Fund-based – Working Capital Facilities	519.50	599.50	[ICRA] A1+; reaffirmed/assigned for enhanced amount
Short-term – Non-fund Based Working Capital Facilities	42.40	42.40	[ICRA] A1+; reaffirmed
Non-Convertible Debenture (NCD) Programme	100.00	100.00	[ICRA]AA-(Stable); reaffirmed
Long-term/Short-term – Unallocated	2.84	13.83	[ICRA]AA-(Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount
Total	1,060.00	1,096.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings factors in the continued strong operating performance of Sansera Engineering Limited (Sansera/the company), aided by an established market position in the precision forged and machined components space, wherein the company caters primarily to the automotive segment (which drove ~88.0% of its revenues in 9M FY2024, including 12% from electric vehicles and tech-agnostic components). The rating action also considers the steady growth in the company's scale, driven by improving domestic demand as well as its forays into newer product segments, which is likely to ensure a diversified growth over the medium to long term.

On a consolidated basis, Sansera witnessed a revenue growth of 17.6% in FY2023 and ~20% in 9M FY2024 supported by recovery in healthy domestic demand, increase in share of business from existing customers and new customer acquisitions. Revenue growth was partially offset by weak exports and international business, which witnessed a decline (down by ~10% in FY2023) amid market volatility. While OPBDITA margins marginally contracted in FY2023 to ~16.6% in FY2023 (over 17.2% in FY2022) due to higher raw material prices (recoverable with a lag) and higher employee costs, margins recovered by 50 basis points to 17.1% in 9M FY2024 driven by operating leverage. Sansera continues to grow at a healthy pace, supported by its healthy product, geographical and customer diversification, expanding wallet share with its customers, and a track record of adding new products and customers to its portfolio.

Aided by an improvement in scale and healthy profitability, Sansera's debt metrics have improved consistently over the years (Total debt to OPBITDA of 1.7 times in H1 FY2024 over 2.2 times in FY2022), despite an increase in debt levels owing to sizeable capability and capacity expansion over the years. Led by an expectation of healthy cash accruals, the company's net debt to OPBITDA is expected to remain in the range of 1.3–1.6 times over the near term, given its capex plans for the current order book (~Rs. 2,040 crore as of December 2023).

The impending electrification of the automotive industry is expected have a bearing on the company's revenues over the medium term. Currently, Sansera derives ~76% of its revenue from engine and transmission components for the auto internal combustion engine (ICE) segment. While the transition to electric vehicles (EVs) is expected to be very gradual in the passenger vehicle (PV) and motorcycle segments, the threat is higher in the scooter segment, which currently accounts for ~6% of the company's revenues. To mitigate the risk of impending EV transition, Sansera has been focused on diversifying into the non-

automotive and auto-tech agnostic/ EV segments. The company has been able to secure orders from reputed customers in the EV segment, whose revenue share increased to 4.5% in 9M FY2024 from 0.4% in FY2022. As of December 31, 2023, ~53% of the company's order book came from the non-automotive, and auto-tech agnostic and EV segments. Moreover, most of the planned capex is likely to be allocated towards these segments, which is expected to augur well for the company as the industry transitions increasingly towards EVs.

The rating strengths are partially offset by moderate customer concentration risk, with the company's top five clients generating ~48% of Sansera's revenues in 9M FY2024 (52.4% in FY2023 and 53.9% in FY2022), and the inherent cyclicity in the auto components industry. During 9M FY2024, the company's international sales improved by 35% on a YoY basis, with sales in the US market improving by about 73% during the same period, indicating revival of demand and sentiments, although the subdued performance in Sansera's Sweden facility and recessionary fears remain a concern.

The Stable outlook reflects ICRA's opinion that Sansera will continue to maintain a healthy credit profile in line with the rating level, aided by strong cash flow generation, despite expectation of substantial capex outlay to cater to its healthy order book.

Key rating drivers and their description

Credit strengths

Well established market position, particularly in the domestic auto components industry — Sansera primarily manufactures high value-added, high-precision and technology-driven components for automotive and non-automotive segments. The company is the largest supplier 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. In international markets, the company is among the leading suppliers of connecting rods for light vehicles and commercial vehicles (CVs). Sansera has well established relationships with major 2W and four-wheeler (4W) original equipment manufacturers (OEMs) in India for the supply of auto components. It has a strong promoter background, who have over 30 years of experience in the auto component industry. Also, much of the senior management team have been with Sansera for more than a decade, contributing to its growth.

Long-term relationships and healthy wallet share with major OEMs aid business stability — Sansera enjoys established relationships with major 2W and 4W OEMs in India for the supply of auto components such as connecting rods, rocker arms, crankshaft assembly and gear shifter forks. It also enjoys single source supplier status for many components. This, in turn, has supported the company's healthy revenue growth momentum over the years. Given its long track record, Sansera enjoys established relationships with most of the OEMs and has managed to garner a strong share of business with most of its customers. By leveraging these well-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 business profile in terms of segments, customers, and products — As of 9M FY2024, Sansera's revenue mix remains fairly diversified (~42% of the revenues came from the 2W ICE segment, ~23% from the PV ICE segment, ~12% from non-auto and ~12% from the auto-tech agnostic and EV segment) even as the company is increasingly focused on growing its non-auto and auto-tech agnostic segments. While the focus on non-auto sectors is expected to reduce the dependance on the cyclical auto industry to an extent, its focus on the EV and tech-agnostic segment is expected to cater to changing customer preferences and ever evolving regulatory and emission requirements. As on December 31, 2023, the company had 16 xEV customers (10 from 2W, four from PVs and two from CVs). The company has a product portfolio of more than 80 components, even though connecting rods, crankshaft assembly and rocker arms generate most of its revenue (~79% in 9M FY2024), as they find application in both auto-ICE and non-auto segments. Under the non-automotive segment, Sansera manufactures seating, lighting, cargo systems, aerostructure, door assembly, and actuation systems categories in the aerospace segment, among other products. Going forward, the company has a five-year target for achieving 20% of its revenue from the non-auto segment and 20% from the auto-tech agnostic and EV segment. The current business pipeline also displays a similar trend, wherein

~53% of the order book of Rs.2,040 crore as of December 31, 2023, is for non-auto, auto-tech agnostic and EV segments, indicating a more diversified revenue profile in the longer term.

Credit challenges

Elevated capex plans to enhance capabilities likely to constrain significant improvement in return indicators – Sansera's capex outlay is expected to be in the range of ~Rs.250.0-300.0 crore for FY2024, spearheaded by projects that help deliver the new order book, mostly in the non-auto, non-ICE categories. Average capex over the next few years is expected to be around ~Rs 280-300 crore towards technology upgradation and infrastructure building. While these expenditures are expected to be partially funded by internal accruals commensurate to its increased scale of operations (unexecuted order book of ~Rs. 2,040 crore as of December 2023), the company's total debt levels (including leases) are envisaged to remain elevated owing to the planned capex. At current debt levels, the company's Net debt/OPBDITA (including leases) and net gearing (including leases) stood at 1.5x and 0.6x, respectively, as on September 30, 2023, and the interest cover was 6.5x in 9M FY2024. Going forward, while the capitalisation and coverage indicators are likely to improve gradually, aided by scheduled repayments and healthy operating accruals, additional debt availed to fund its capex programme is likely to constrain a material improvement in metrics.

Moderate customer concentration – As on December 31, 2023, the company had a total customer base of 96 clients across the auto and non-auto categories, spread across 27 countries. Bajaj Auto Limited (BAL) remains Sansera's largest customer, driving ~14% of its total revenues in FY2023, followed by Honda Motorcycle & Scooter India Private Limited (HMSI) (13.0%), Maruti Suzuki India limited (MSIL) (12.0%), Volvo Trucks (6.0%) and Fiat Powertrain (6.0%). Over the years, Sansera has proactively reduced customer concentration (contribution from its top five customers has come down to ~48% in 9M FY2024 from ~61% in FY2020) by adding new customers and increasing wallet share with existing customers. Despite the steady improvement, customer concentration remains relatively moderate. The single source supplier status for certain components, with major OEMs such as, BAL, MSIL, Eicher Motors Limited (EML) and HMSI, mitigates the risk to an extent.

Susceptible to inherent cyclicity in the automotive industry – Sansera derived ~88% of its revenues in 9M FY2024 from the automotive sector, exposing its revenues to the cyclicity in demand from the segment. In addition, ~76% of its revenues in 9M FY2024 came from the auto-ICE segment, which is susceptible to the risks of powertrain changes. However, these risks are partially mitigated by the company's efforts to increase revenues from other segments, such as off-road, aerospace, and defence. To mitigate the risk of impending EV transition to its auto-ICE segment, the company is focusing on diversifying into non-automotive, auto-tech agnostic and EV segments. For 9M FY2024, the company derived ~12% of its revenues from the non-automotive segment and ~7.3% from the auto-tech agnostic segments, both segments showing a steady increase over the past years. The company has also set a long-term target of ~20% revenues from non-automotive sector in the longer term to reduce exposure to a single sector or powertrain. As of December 31, 2023, ~53% of the company's order book was derived from the non-automotive, auto-tech agnostic and EV segments. Moreover, a significant amount of the planned capex will be allocated towards these segments, as the industry transitions to EVs.

Liquidity position: Adequate

Sansera's liquidity position is adequate, characterised by healthy retained cash flows, cash balances and liquid investments of ~Rs. 83.0 crore as on September 30, 2023, and the availability of adequate buffer in the working capital facilities. At a standalone level, it had ~Rs. 278 crore buffer in working capital against drawing power of ~Rs. 554 crore as on December 31, 2023. Going forward, the company has debt repayment obligations averaging ~Rs. 110 crore over the next two years for its existing term debt. Sansera also plans to incur capex of ~Rs. 250-300 crore p.a. during FY2024–FY2026. ICRA expects Sansera's liquidity position to remain adequate over the medium term and that the company will meet its debt repayment through internal accruals and its capex requirements through a mix of external borrowings and internal accruals.

Rating sensitivities

Positive factors – A sustained improvement in the company’s operational profile through material diversification of its business segment mix would be favourably considered for an improvement in rating. A sustained growth in revenues coupled with a notable improvement in the debt metrics and the return on capital employed on a sustained basis could also lead to an improvement in the rating.

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 adversely impacts 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 Auto Components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Sansera. As on December 31, 2023, the company had three subsidiaries (enlisted in Annexure-II).

About the company

Headquartered in Bengaluru, and listed since September 2021, Sansera is primarily engaged in the machining of precision engine forged components for the automotive (2Ws and 4Ws) and non-automotive sectors (aerospace, agriculture). The company also manufactures connecting rods for medium and heavy commercial vehicles. 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, Toyota Motor Corporation, Tata Motors Limited, India Yamaha Motor Private Limited and Eicher Motors Limited. Sansera also exports components to reputed global OEMs such as Ducati Motor Holding S.P.A. (Italy), Fiat Powertrain (Italy), General Motors (USA), BMW Motorrad (Germany), Harley-Davidson Motor Co. (USA), Polaris Industries Inc. (USA) and Piaggio (Italy).

Sansera has 17 manufacturing plants, with 16 facilities 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 manufacturing auto components. The company manufactures Computerized Numerical Control (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 also has a heat treatment facility and a metallurgical lab.

Key financial indicators (audited)

Sansera, Consolidated	FY2022	FY2023	9M FY2024*
Operating income	1,993.9	2,345.7	2,065.6
PAT	131.5	148.3	141.1
OPBDIT/OI	17.2%	16.6%	17.1%
PAT/OI	6.6%	6.3%	6.8%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	-
Total debt/OPBDIT (times)	2.2	2.1	-
Interest coverage (times)	6.5	6.1	-

* Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

Source: Company, ICRA Research;

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 28, 2024	Feb 23, 2023	Dec 13, 2021	Nov 27, 2020
1 Fund Based – Term Loan	Long term	340.27	340.27	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)
2 Fund Based – Working Capital Facilities	Short term	599.50	--	[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	Nil (Not placed yet)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	--	--
5 Unallocated Limits	Long term/Short term	13.83	--	[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

* *Not placed/Issued yet; subject to change once the terms are finalized*

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 -FY2021	-	FY2022 - FY2028	164.0	[ICRA]AA-(Stable)
NA	Term Loan II	Jun 2020	-	FY2026	37.33	[ICRA]AA-(Stable)
NA	Term Loan III	Dec 2021	-	FY2027	133.16	[ICRA]AA-(Stable)
NA	Term Loan IV	FY2019-FY2020	-	FY2025	5.78	[ICRA]AA-(Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	599.50	[ICRA]A1+
NA	Non-fund Based Working Capital Facilities	-	-	-	42.40	[ICRA]A1+
NA	Non-Convertible Debenture	Not Placed	-	-	100.00	[ICRA]AA-(Stable)
NA	Unallocated Limits	NA	NA	NA	13.83	[ICRA]AA-(Stable)/[ICRA]1+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	Sansera Ownership	Consolidation Approach
Sansera Engineering Limited	Rated entity	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

Note: ICRA has considered the consolidated financials of Sansera while assigning the ratings.

Corrigendum

Document dated February 28, 2024, has been corrected with revisions as detailed below:

Revisions: - Page 6 – Typographical error in the details of lender wise facilities link on page 6 has been corrected

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