

December 13, 2021

Sansera Engineering Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Limits – Term Loans	360.46	255.85	[ICRA]AA- (Stable); reaffirmed
Short-term Fund-based Limits – Working Capital	369.50	409.50	[ICRA]A1+; reaffirmed
Short-term Non-fund Based Limits	42.40	42.40	[ICRA]A1+; reaffirmed
Unallocated	52.64	117.25	[ICRA]AA- (Stable)/A1+; reaffirmed
Total	825.00	825.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings considers the established position of Sansera Engineering Limited (Sansera) as a manufacturer of precision forged and machined components, catering primarily to two-wheelers (2Ws) and four-wheelers (4Ws), which accounted for 74.5% (domestic customers (57.3%) and exports (17.2%)) of the revenues in FY2021. The ratings also continue to consider the promoters' experience of over 30 years in the auto industry. The ratings favourably factor in 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's revenue increased 6.3% and it reported healthy operating and net profit margins, which expanded by 200 bps YoY and 150 bps YoY to 18.4% and 7.0%, respectively, in FY2021 despite a weak Q1 FY2021 amid the Covid-19 pandemic. The performance was aided by strong demand revival in subsequent quarters. Sansera witnessed ~63% revenue growth in H1 FY2022, aided by a low base and increasing demand from exports along with the increasing number of product additions, the addition of new customers, an increase in the share of business from existing customers and the low base of Q1 FY2021. The operating profit margin (OPM) was 18.1% in H1 FY2022 (14.4% in H1 FY2021) aided by benefits of scale. Further, Sansera's revenue growth has been better than the industry growth over the past few years aided by its diversified geographical and customer presence, increasing wallet share with existing customers, and addition of new products and customers.

The rating strengths are partially offset by the customer concentration risk with the top five clients contributing 59.2% (reduced to 55.6% in H1 FY2022) to the revenues in FY2021 and the inherent cyclicity in the auto components industry. However, ICRA expects the concentration risk to reduce, going forward, on the back of new customer additions and improved wallet share from existing customers. The ratings also remain constrained by the evolving nature of the pandemic. The near-term outlook for the automotive business remains uncertain, given the high commodity costs and the shortage of integrated circuit (IC) chips worldwide. Despite the expected multiple headwinds in the near term, Sansera is likely to post healthy revenues given its strong market position, healthy diversification and continued efforts to increase its wallet share and add new products and customers to its portfolio. The company's debt levels have remained high with sizeable capacity expansion over the years; however, the debt coverage metrics have improved with TD/OPBDITA (excluding lease) at 2.0x as on March 31, 2021 (2.8x as on March 31, 2020). The interest coverage was 5.8x in FY2021.

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, 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. In recent times, Sansera has acquired orders for the supply of 2W, 3W and 4W electric vehicles, which is likely to provide diversification benefit. Overall, the company also improved its wallet share and increased its content per vehicle with key OEMs. It also added reputed OEMs to its customer profile in FY2021 and H1 FY2022, which aids revenue visibility going forward.

Healthy financial profile with revenue growth and margin expansion in FY2021 and H1 FY2022 – Sansera's financial profile is characterised by revenue growth of 6.3% and healthy operating and net profit margins, which expanded by 200 bps YoY and 150 bps YoY to 18.4% and 7.0%, respectively, in FY2021. The revenue growth was primarily driven by addition of new customer and products coupled with healthy demand and revival in the industry post a weak Q1 FY2021. The expansion in the profit margins was on the back of the benefits of operating leverage (aided by scale), margin-accretive BS VI products, and cost rationalisation measures such as salary cuts, lower discretionary spend, contract renegotiations, shift to renewable energy, etc.

Sansera reported ~63% growth in H1 FY2022, which was primarily aided by healthy demand from export markets, addition of new customers, increase in the share of business from existing customers and the low base of Q1 FY2021. In Q2 FY2022, the company registered its highest-ever quarterly revenues in its history. Domestic revenues were impacted by Covid 2.0 in Q1 FY2022. This was supplemented by the continuous flow of export revenue, which improved the sales mix in favour of exports. Sansera's OPM was 18.1% in H1 FY2022 (14.4% in H1 FY2021) aided by benefits of scale. The company has been able to pass on the increasing raw material costs to its customers, which has helped it maintain healthy margins. Additionally, its performance has been better than the overall industry's performance due to its diversified presence, improved wallet share and addition of new products. Going forward, the company's ability to grow at a healthy rate while improving its debt metrics and maintaining its healthy profit margins remains a 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. 639.6 crore as on September 30, 2021 from Rs. 548.3 crore as on March 31, 2021 and Rs. 636.8 crore as on March 31, 2020 owing to the debt-funded capex in the past, the ongoing capex programme and its increasing scale. Its total debt/OPBDITA (excluding lease impact) and gearing stood at 2.0x and 0.7x, respectively, as on September 30, 2021 and the interest cover was 7.4x in H1 FY2022. The company's Net debt/ OPBDITA (excl. lease impact) was at 1.7x as on September 30, 2021 as against 2.5x as on March 31, 2020. Going forward, the company will avail additional debt to fund its capex programme; however, the capitalisation and coverage indicators are likely to improve, aided by scheduled repayments and healthy operating accruals.

High customer concentration risk – With the top five customers, namely Bajaj Auto Limited (20.7%), Honda Motorcycle and Scooter India Limited (14.0%), Volvo (9.0%), Maruti Suzuki India Limited (10.2%), and Fiat (5.3%), contributing 59.2% to the revenues in FY2021 (60.5% in FY2020), the customer concentration risk remains high. Customer concentration reduced in FY2021 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.

Near-term concerns owing to evolving nature of the pandemic, commodity price increase and global shortage of IC chips – The company's operations were impacted in Q1 FY2021 and Q1 FY2022 amid the Covid-19-induced lockdown, leading to weak quarterly revenue. Further, the evolving nature of the pandemic is likely to impact the operations of the company as well as of OEMs. In FY2021 and H1 FY2022, OEMs across the world faced a shortage of IC chips, which, in turn, impacted Sansera's operations to a certain extent. The IC chip shortage is likely to continue in the near term, impacting OEMs and therefore Sansera to a certain extent. The company has seen an increase in raw material costs in the past few quarters; however, it is able to pass on the increase to its domestic customers immediately and, in some cases, it is able to pass on these cost increases to the OEMs with a time lag (3 months).

Despite the expected multiple headwinds in the near term, the company is likely to witness a healthy performance given its strong market position, healthy diversification and its continued efforts to increase its wallet share and add new products and customers to its portfolio. Nevertheless, the impact of the evolving nature of Covid-19 on Sansera's operations will remain a key monitorable.

Exposed to cyclicity in automotive industry – Sansera derived 74.5% of its FY2021 revenues from the 2W and 4W segments, exposing its revenues to the cyclicity in demand from these segments. However, the risk is mitigated to a certain extent by the company's revenues from the off-road, aerospace and other segments and its constant effort to increase its wallet share with existing automotive OEMs and to add new customers. Its well-established relationships with major OEMs also partly mitigate the risk.

Liquidity position: Adequate

Sansera's liquidity position is adequate with healthy retained cash flows in FY2021, sizeable cash balances and liquid investments of Rs. 76.8 crore as on September 30, 2021 and the availability of adequate buffer in the working capital facilities. At the standalone level, it had Rs. 87.5-crore buffer in working capital against drawing power of Rs. 377.7 crore as on September 30, 2021.

Going forward, the company has debt repayment obligations of Rs. 53.9 crore in H2 FY2022, Rs. 88.4 crore in FY2023 and Rs. 65.5 crore in FY2024. Sansera also has capex plans of ~Rs. 250 crore p.a. in FY2022 and FY2023. 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). Sansera recently forayed into the manufacturing of steering and aluminium forged products. 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 17 manufacturing plants, including 16 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	FY2020	FY2021	H1 FY2022*
Operating Income (Rs. crore)	1,467.6	1,559.5	932.0
PAT (Rs. crore)	80.6	109.9	70.6
OPBDITA/OI (%)	16.4%	18.4%	18.1%
PAT/OI (%)	5.5%	7.0%	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.2	1.2
Adj. Total Debt/Adj. OPBDITA (times)	2.8	2.0	2.0
Interest Coverage (times)	4.0	5.8	7.4

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Adj. total debt excludes lease liabilities and adj. OPBDITA excludes the impact of Ind AS 116 in FY2020, FY2021 and H1 FY2022

* H1 FY2022 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 (FY2022)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Nov 6, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Dec 13, 2021	Nov 20, 2020	Aug 23, 2019	Jul 20, 2018	
1 Fund based – Term loans	Long term	255.85	255.85	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Positive)	
2 Fund-based working capital	Short term	409.50	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	--	
3 Non-fund based limits	Short term	42.40	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Unallocated	Long term/ Short term	117.25	--	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Positive)/ [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
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: www.icra.in

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 - FY2022	1.50% - 9.00%	FY2022 - FY2025	255.85	[ICRA]AA- (Stable)
NA	Working capital	FY2021 - FY2022	3.50% - 7.90%	--	409.50	[ICRA]A1+
NA	Non-fund based limits	FY2021 - FY2022	--	--	42.40	[ICRA]A1+
NA	Unallocated	--	--	--	117.25	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

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

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