

Sandhar Technologies Limited

Sandhar Technologies Ltd. is one of the leading auto component suppliers for safety and security systems such as lock assemblies, mirror assemblies, operator cabins for 2W, PV and off-highway vehicles. Currently, 2W, PV & CV and off highway contribute ~58%, 30%, and 9% respectively to its revenue. The company has 21 product categories and 31 manufacturing facilities in India, 2 in Spain, 1 in Mexico and 5 are in the process of getting commissioned in India.

Diversified product portfolio: Sandhar's portfolio comprises various categories of products including safety and security systems such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, aluminium spools, spindles and hubs. Further, Sandhar also manufactures other products including wheel assemblies, handle bar assemblies, brake panel assemblies, sheet metal components such as fuel filler caps, fuel cock assembly, etc.

Relationships with major OEMs in India and overseas: Sandhar has a relationship with 79 OEMs across India, eastern and western Europe and NAFTA regions. Moreover, Sandhar supplies various products to global automotive component suppliers such as Autoliv, Bosch and CTS. The company's prominent customers are Hero, TVS, Royal Enfield, Honda etc.

Strong focus on R&D: Sandhar has a modern and advanced technology through in-house research and development activities, joint ventures and technical collaborations. The company's R&D team of 31 engineers are currently working on the development of new products, designing, prototyping and product upgrades.

Manufacturing locations in close proximity to automobile hubs: Sandhar has 31 manufacturing facilities in India, 2 in Spain, 1 in Mexico and 5 manufacturing facilities are in the process of commissioning. All the plants are located near the OEMs, which could cater to the demand easily.

Outlook & Valuation: Sandhar is continuously diversifying its product portfolio and expanding its customer base by offering high value added products and focusing on exports. In terms of valuations, the pre-issue P/E works out to 25x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to its closest peer Minda Corporation (trading at 30x its 1HFY2018 annualized earnings). Hence, considering the above positive factors, better ROE profile and reasonable valuations, we recommend **SUBSCRIBE** rating.

Key Financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
Net Sales	1,265	1,482	1,513	1,627	989
% chg	9.1	17.2	2.1	7.5	-
Net Profit	33	38	33	39	34
% chg	72.6	15.6	(12.6)	17.2	-
OPM (%)	9.2	9.4	9.3	9.0	10.3
EPS (₹)	6.5	7.5	6.5	7.7	6.7
P/E (x)	51.3	44.4	50.8	43.3	-
P/BV (x)	8.2	6.6	6.2	5.6	-
RoE (%)	16.0	14.8	12.3	13.0	-
RoCE (%)	16.0	15.3	14.5	12.3	-
EV/Sales (x)	1.6	1.3	1.3	1.3	-
EV/EBITDA (x)	16.9	14.4	14.2	14.3	-

Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: Mar 19, 2018

Issue Close: Mar 21, 2018

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹51.2cr

Fresh issue: ₹300cr

Post Eq. Paid up Capital: ₹60.2cr

Issue size (amount): ₹512.5cr

Price Band: ₹327-332

Lot Size: 45 shares and in multiple thereafter

Post-issue implied mkt. cap: *₹1,969cr -
**₹1,999cr

Promoters holding Pre-Issue: 82.5%

Promoters holding Post-Issue: 70.1%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

Post Issue Shareholding Pattern

Promoters	70.1%
Others	29.9%

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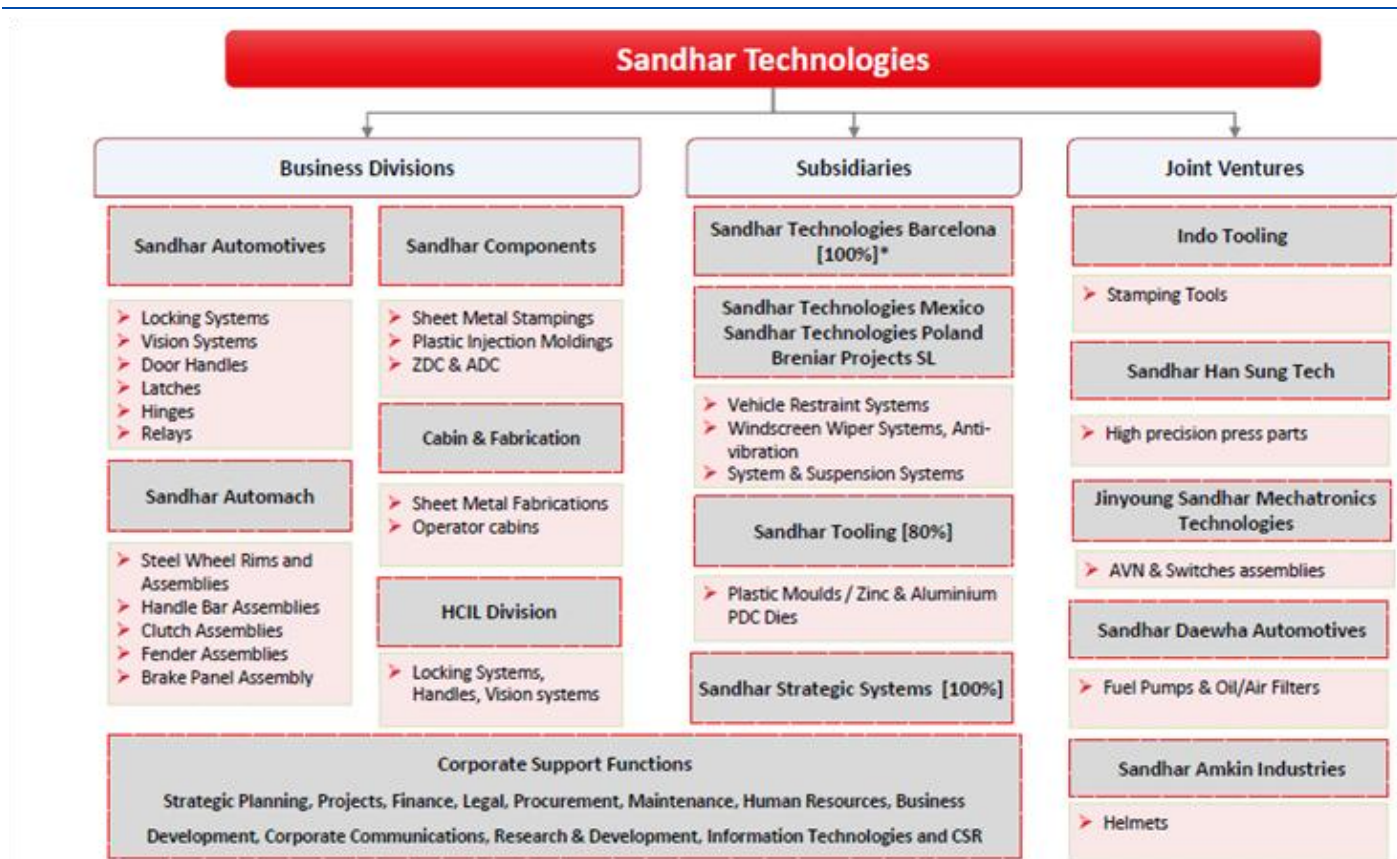
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Company background

Sandhar Technologies Ltd. is one of the leading auto component suppliers for safety and security systems such as lock assemblies, mirror assemblies, operator cabins for 2W, PV and off-highway vehicles. Currently, 2W, PV & CV and off highway contribute ~58%, 30%, and 9% respectively to its revenue. The company has 21 product categories and 31 manufacturing facilities in India, 2 in Spain, 1 in Mexico and 5 are in the process of getting commissioned in India. Going ahead, Sandhar would focus more on offering high value added products like rear-parking sensors, ABS/CBS, Tyre-pressure monitor, etc. coupled with expansion in the customer base and increase the wallet share from the existing OEM customers. Company is also working towards auto fuels and emission norms and expanding exports portfolio.

Exhibit 1: Business Structure



Source: Company, Angel Research

Issue details

Sandhar's Technologies Ltd. IPO is a mix of offer-for-sale and fresh issue of shares. The fresh issue would constitute of shares worth ₹300cr, with offer-for-sale of 0.64cr shares. The company will dilute 15% of its post-offer paid-up equity share capital.

Exhibit 2: Pre and post IPO shareholding pattern

	Pre-issue		Post-issue	
	No. of Shares	%	No. of Shares	%
Promoter	4,22,20,059	82.5%	4,22,20,059	70.1%
Public	89,34,505	17.5%	1,79,70,650	29.9%
Total	5,11,54,564	100.0%	6,01,90,709	100.0%

Source: Source: RHP, Note: Calculated on upper price band

Objectives of the Offer

- Repayment or prepayment in full, or in part of certain loans availed by the company (₹225cr)
- General corporate purposes

Outlook & Valuation

The company is continuously diversifying its product portfolio and expanding its customer base by offering high value added products and focusing on exports. In terms of valuations, the pre-issue P/E works out to 25x 1HFY2018 annualized earnings (at the upper end of the issue price band), which is lower compared to its closest peer Minda Corporation (trading at 30x its 1HFY2018 annualized earnings). Hence, considering the above positive factors, better ROE profile and reasonable valuations, we recommend **SUBSCRIBE** on the issue.

Key Risks

- Slowdown in 2W/PV/Commercial vehicle industries could impact the overall sales volume of the company
- Increase in competition from other players can impact the company's business

Income Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
Total operating income	1,265	1,482	1,513	1,627	989
% chg	9.1	17.2	2.1	7.5	-
Total Expenditure	1,149	1,343	1,372	1,481	887
Raw Material	773	908	901	951	592
Personnel	160	184	202	235	130
Others Expenses	215	251	269	295	165
EBITDA	116	139	141	146	102
% chg	25.0	19.6	1.6	3.2	-
(% of Net Sales)	9.2	9.4	9.3	9.0	10.3
Depreciation & Amortisation	39	52	55	60	34
EBIT	77	87	86	86	69
% chg	34.6	12.8	(0.7)	(0.7)	-
(% of Net Sales)	6.1	5.9	5.7	5.3	6.9
Interest & other Charges	39	41	42	42	20
Other Income	4	5	5	7	1
(% of PBT)	9.3	10.3	10.3	13.5	2.4
Exceptional Items	-	-	4	1	-
Recurring PBT	42	51	45	49	50
% chg	64.3	23.1	(12.1)	9.3	-
Tax	9	13	11	10	16
(% of PBT)	20.4	25.3	25.4	20.0	31.0
PAT (reported)	33	38	34	40	35
% chg	72.6	15.6	(12.6)	17.2	-
(% of Net Sales)	2.6	2.6	2.2	2.4	3.5
Basic EPS (₹)	6.5	7.5	6.5	7.7	6.7
Fully Diluted EPS (₹)	6.5	7.5	6.5	7.7	6.7
% chg	73.7	15.6	(12.6)	17.2	-

Source: Company, Angel Research

Exhibit 3: Balance Sheet

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
SOURCES OF FUNDS					
Equity Share Capital	9	10	51	51	51
Reserves & Surplus	198	249	222	250	280
Shareholders' Funds	207	259	274	301	331
Total Loans	275	309	319	393	402
Deferred Tax Liability	14	11	8	8	8
Total Liabilities	498	580	603	704	744
APPLICATION OF FUNDS					
Net Block	418	476	528	596	623
Capital Work-in-Progress	26	40	55	29	70
Investments	3	3	4	4	6
Current Assets	342	396	377	443	535
Inventories	130	157	160	167	194
Sundry Debtors	151	188	167	209	264
Cash	3	7	6	7	6
Loans & Advances	57	41	44	46	68
Other Assets	0	3	1	14	3
Current liabilities	291	336	363	370	492
Net Current Assets	51	60	14	74	43
Deferred Tax Asset	0	0	1	1	1
Total Assets	498	580	603	704	744

Source: Company, Angel Research

Exhibit 4: Cash Flow Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017	1HFY18
Profit before tax	42	51	45	49	50
Depreciation	39	52	55	60	34
Change in Working Capital	(41)	(32)	15	(44)	13
Interest / Dividend (Net)	39	41	42	43	20
Direct taxes paid	(7)	(12)	(16)	(9)	(6)
Others	3	(1)	3	(7)	0
Cash Flow from Operations	75	100	144	93	111
(Inc.)/ Dec. in Fixed Assets	(90)	(111)	(107)	(107)	(97)
(Inc.)/ Dec. in Investments	8	(2)	0	2	(2)
Cash Flow from Investing	(82)	(113)	(106)	(105)	(98)
Issue of Equity	1	32	0	0	0
Inc./(Dec.) in loans	46	40	23	66	11
Dividend Paid (Incl. Tax)	(11)	(11)	(22)	(9)	(6)
Interest / Dividend (Net)	(39)	(41)	(42)	(42)	(21)
Cash Flow from Financing	(2)	20	(41)	15	(16)
Cash flow on acc. of Foreign currency	7	(5)	4	(0)	1
Inc./(Dec.) in Cash	(9)	7	(4)	3	(3)
Opening Cash balances	4	2	4	4	6
Closing Cash balances	2	4	4	6	4

Source: Company, Angel Research

Exhibit 5: Key Ratios

Y/E March	FY2014	FY2015	FY2016	FY2017
Valuation Ratio (x)				
P/E (on FDEPS)	51.3	44.4	50.8	43.3
P/CEPS	23.4	18.7	19.1	17.0
P/BV	8.2	6.6	6.2	5.6
Dividend yield (%)	0.0	0.0	0.0	0.0
EV/Sales	1.6	1.3	1.3	1.3
EV/EBITDA	16.9	14.4	14.2	14.3
EV / Total Assets	3.9	3.4	3.3	3.0
Per Share Data (Rs)				
EPS (Basic)	6.5	7.5	6.5	7.7
EPS (fully diluted)	6.5	7.5	6.5	7.7
Cash EPS	14.2	17.7	17.4	19.5
Book Value	40.5	50.7	53.5	58.9
Returns (%)				
ROCE	16.0	15.3	14.5	12.3
Angel ROIC (Pre-tax)	16.2	15.6	14.8	12.5
ROE	16.0	14.8	12.3	13.0
Turnover ratios (x)				
Inventory / Sales (days)	37	39	39	37
Receivables (days)	44	46	40	47
Payables (days)	53	55	54	53
Working capital cycle (ex-cash) (days)	28	30	24	31

Source: Company, Angel Research

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