

# Sandhar Technologies (Sandhar)

India Research

**COMPANY UPDATE**

 Bloomberg: SANDHAR IN  
 Reuters: SNTL.NS

**BUY**
**Profit Set to More Than double over FY18-20E**

*Post Q2FY19, we had an interaction with the Sandhar management. We continue to believe in the robust growth prospects for Sandhar in the medium term. We retain our earnings estimates for FY19 and FY20 and reiterate BUY rating on the stock with revised price target of Rs420 (PER of 16x FY20E). Following are the key takeaways.*

**2W Business (59% of sales):** Sandhar's 2W business (Locks, Aluminum Casting and Mirrors) grew by 20%+ during H1FY19 compared to 2W industry growth of 11.9%. This is on account of its recent entry into scooter segment and contribution from new products. Going forward, the Management anticipates increase in its content per vehicle in its 2W business on account of new offerings (helmet lock) and contribution from new aluminum die casting plant. The Company plans to achieve 15%+ sales CAGR in its 2W business over the next two years.

**Cabin and Fabrication (13% of sales):** Sandhar's OHV business (Cabin and Fabrication for construction equipment) grew by 75.4% during H1FY19 compared to construction equipment industry growth of 20%. Higher growth is primarily driven by its key client JCB (new plant at Jaipur). Management anticipates this business segment to cross Rs3.5bn in FY20 compared to Rs1.9bn in FY18 on account of buoyancy in construction equipment market in India.

**PV Segment (12% of sales):** Sandhar's Honda Cars business (Locks, aluminum casting and Mirrors etc) grew by 1.1% during H1FY19 compared to Honda Cars growth of 3.9%. The management anticipates this division to regain higher traction by FY21 supported by Honda's new launches wherein Sandhar has committed orders in hand.

**Key Financials:**

| Y/E (Rs mn) Consolidated | FY16   | FY17   | FY18   | FY19E  | FY20E  |
|--------------------------|--------|--------|--------|--------|--------|
| Net Sales                | 15,132 | 16,114 | 19,464 | 23,530 | 27,745 |
| EBIDTA                   | 1,413  | 1,467  | 2,083  | 2,656  | 3,250  |
| EBIDTA Margin (%)        | 9.3    | 9.1    | 10.7   | 11.3   | 11.7   |
| PAT                      | 375    | 420.7  | 656    | 1,125  | 1579   |
| EPS (Rs)                 | 7.3    | 8.2    | 10.9   | 18.7   | 26.2   |
| ROCE (%)                 | 12.7   | 11.6   | 11.7   | 13.8   | 18.5   |
| ROE (%)                  | 14.1   | 14.6   | 14.0   | 16.6   | 20.3   |
| PE (x)                   | 42.3   | 37.7   | 28.4   | 16.6   | 11.8   |

Source: Karvy Stock Broking

**Recommendation**

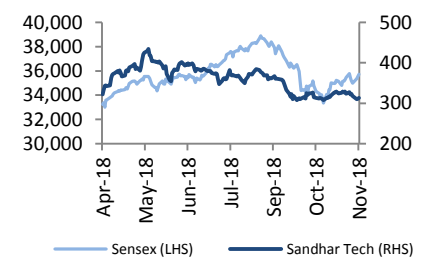
|                       |       |
|-----------------------|-------|
| CMP:                  | Rs310 |
| Target Price:         | Rs420 |
| Previous Target Price | Rs472 |
| Upside (%)            | 35%   |

**Stock Information**

|                               |               |
|-------------------------------|---------------|
| Market Cap. (Rs bn / US\$ mn) | 19/267        |
| 52-week High/Low (Rs)         | 451.3/295.1   |
| 3m ADV (Rsmn /US\$ mn)        | 12/--         |
| Beta                          | -             |
| Sensex/ Nifty                 | 36,170/10,859 |
| Share outstanding (mn)        | 60            |

**Stock Performance (%)**

|                | 1M    | 3M     | 12M | YTD |
|----------------|-------|--------|-----|-----|
| Absolute       | (1.2) | (17.6) | -   | -   |
| Rel. to Sensex | (7.0) | (11.7) | -   | -   |

**Performance**
**SANDHAR IN**


Source: Bloomberg.

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**Sandhar Technologies**

**European Business (13% of sales):** Sandhar's European business (Aluminum Casting) grew by 2.2% during H1FY19 supported by buoyancy in European Car market. Management has a strategic intent to run the overseas business as it foresees business opportunity in future.

**Cap on Capex plan:** The Company is not planning to incur major capital expenditure plan over the next 2 years. As per the management, capital expenditure is likely to be in line with depreciation cost over FY18-20. The Company reiterated its earlier stand of getting benefit from its previous capex which it had incurred during last 3-4 years.

**Double digit sales growth prospects over FY18-20:** Based on current business outlook and new orders at its disposal, Sandhar expects to report 18-20% sales growth over FY18-20. This is primarily driven by growth in its core business, incremental sales from OHV business and new product launches.

**Margin Expansion on Cards:** The Company reiterated its earlier stand of achieving 12% + EBITDA margins in the medium term. During H1FY18, Sandhar's EBITDA margins were impacted by 46bps to 10.5% due to additional cost on account of new plant being commissioned.

**Joint ventures update:** Over the next 6 months, four of Sandhar's JVs are likely to be operational. Each of these JVs is likely to incur Capex of ~Rs400mn and has a potential to generate ~Rs1bn sales on full utilization. The Company plans to spend ~Rs200mn in FY19 and FY20 as a part equity funding. These JVs are expected to generate additional business for Sandhar as ancillary components are likely to be supplied by the Company to these new entities.

## Our view:

### **Retain Estimates – 19.4% Sales CAGR over FY18-20E**

We believe Sandhar is poised for robust business growth over the next two years. Further, we understand, its new JVs are likely to enable it to sustain growth momentum beyond FY20E. We maintain our Sales and PAT estimates for FY19 and FY20. The company is expected to report 19.4% Sales CAGR over FY18-20E.

### **Growth + Operating Leverage + Financial leverage – Profit Set to Double**

We estimate Sandhar's PAT margins to expand from 3.4% to 5.7% over FY18-20E on account of a) 100bps EBITDA margin expansion (operating leverage and increasing contribution of higher profitable business) and b) Interest cost saving on account of debt repayment out of IPO proceeds. The company is set to more than double its profit from Rs656mn to Rs1.6bn over FY18-20E.

**Maintain BUY:** Sandhar is among the top five diversified auto ancillary listed entities in India. We believe Sandhar has now entered into a high growth phase wherein its sales and PAT are expected to grow at 19.4% and 55.1% over FY18-20E respectively. Further we believe, new JVs will enable sustenance of growth beyond FY20E. At Rs310, the stock is quoting PER of 11.8x FY20E earnings. We maintain our BUY rating with revised price target of Rs420 (PER of 16x FY20E). To realign sectoral valuation, we have reduced target PER from 18x to 16x.

### **Impressive Q2FY19 Performance:**

- During Q2FY19, its sales grew by 15.8% to Rs5.4b, driven by strong volume growth across all its business segments and customers.
- Its EBITDA margins remained flat at 10.9% on account of start-up cost in its 3 newly operational manufacturing plants. Without contribution from these 3 plants, overall EBITDA margins were up ~47bps.
- PAT increased by 33% YoY to Rs260mn led by strong sales growth and 46% decline in interest cost.
- Standalone Net Debt stand at Rs1.5bn ( D/E ratio of 0.2).

**Sandhar Technologies**
**Exhibit 1: Quarterly Performance**

| Rs Mn                | Q2FY19     | Q2FY18     | % Y-O-Y      | Q1FY19     | % Q-O-Q      |
|----------------------|------------|------------|--------------|------------|--------------|
| Net Sales            | 5,366      | 4,633      | 15.8%        | 4,934      | 8.8%         |
| Materials Consumed   | 3,479      | 3,069      | 13.3%        | 3,146      | 10.6%        |
| Changes in Inventory | (29)       | 2          | -1725.6%     | 26         | -212.6%      |
| Raw Material         | 3,450      | 3,071      | 12.3%        | 3,172      | 8.8%         |
| Staff Cost           | 625        | 490        | 27.3%        | 601        | 3.8%         |
| Other expenditure    | 706        | 566        | 24.8%        | 668        | 5.6%         |
| Total Expenditure    | 4,781      | 4,127      | 15.8%        | 4,442      | 7.6%         |
| <b>EBITDA</b>        | <b>586</b> | <b>506</b> | <b>15.8%</b> | <b>492</b> | <b>19.1%</b> |
| Depreciation         | 169        | 137        | 23.8%        | 157        | 7.9%         |
| EBIT                 | 416        | 369        | 12.9%        | 335        | 24.3%        |
| Interest             | 47         | 87         | -45.5%       | 31         | 52.0%        |
| Other Income         | 15         | 10         | 48.6%        | 8          | 91.6%        |
| PBT                  | 384        | 292        | 31.5%        | 311        | 23.3%        |
| Current Tax          | 121        | 89         | 35.8%        | 69         | 75.9%        |
| Deferred tax         | 3          | 7          | -63.0%       | 24         | 0.0%         |
| Tax                  | 123        | 96         | 28.5%        | 92         | 33.6%        |
| PAT                  | 260        | 196        | 33.0%        | 219        | 18.9%        |
| <b>PAT</b>           | <b>260</b> | <b>196</b> | <b>33.0%</b> | <b>219</b> | <b>18.9%</b> |
| Equity               | 602        | 602        | 0.0%         | 602        | 0.0%         |
| EPS                  | 4.3        | 3.3        | 33.0%        | 3.6        | 18.9%        |
| <b>Margins</b>       | Q2FY19     | Q2FY18     | YOY (bps)    | Q1FY19     | QOQ (bps)    |
| Gross margins        | 35.7%      | 33.7%      | 200          | 35.7%      | 0            |
| EBITDA margins       | 10.9%      | 10.9%      | (0)          | 10.0%      | 94           |
| PAT                  | 4.9%       | 4.2%       | 63           | 4.4%       | 41           |
| Tax Rate             | 32.2%      | 32.9%      | (75)         | 29.7%      | 250          |

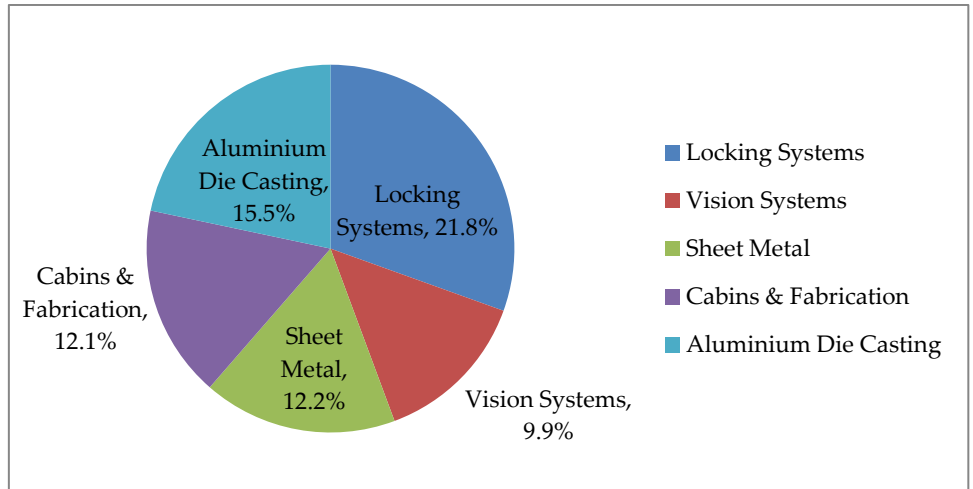
Source: Karvy Stock Broking

**Sandhar Technologies**

**Product-wise Sales contribution**

The Company remains dominant player in automotive locking and vision system (~32% of sales) while aluminium die casting and driver Cabins for CV remains to be major growth driver for the Company (~28% of Sales).

H1FY19 Product-wise Sales contribution

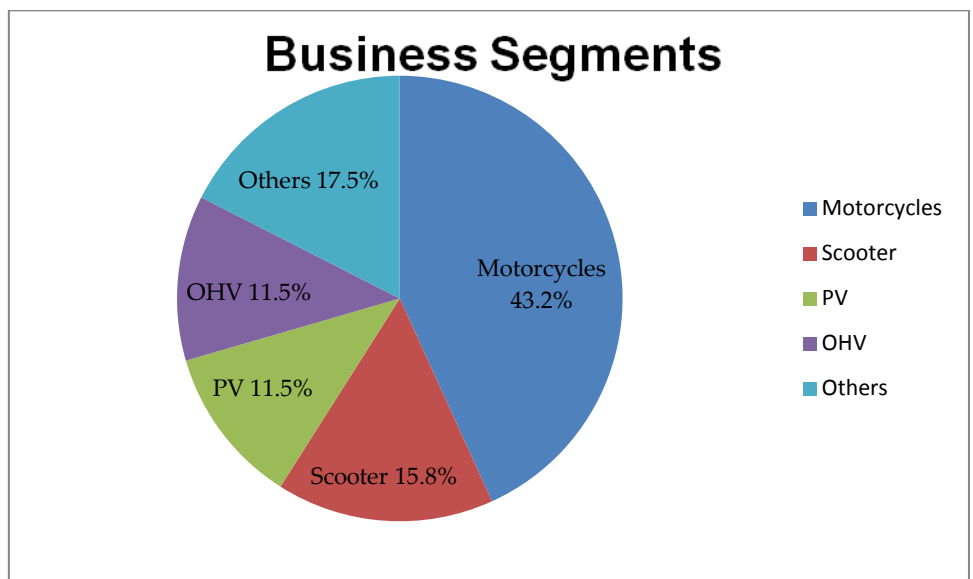


Source: Company Data

**Industry wise Sales contribution**

For Sandhar, Motorcycle and Scooter segment (59% of sales) remains a major client base followed by Passenger vehicles (11.5% of sales) and Off Highway vehicles (12% of sales).

H1FY19 Industry wise Sales contribution

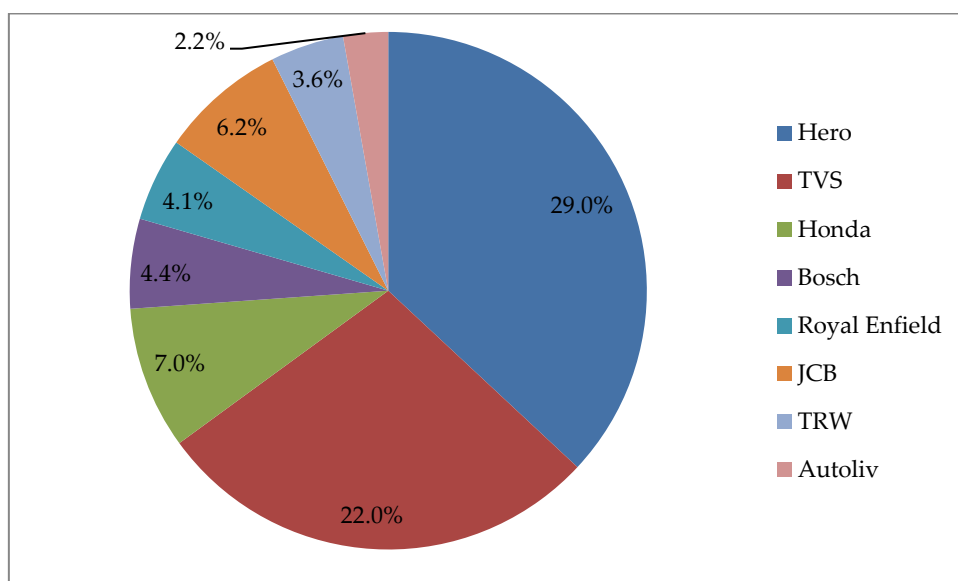


Source: Company Data

**Customer-wise sales Contribution**

**Sandhar Technologies**

For Sandhar, its top five customers contribute 68% to its sales wherein Hero MotoCorp remains its top customer.

**H1FY19 Customer-wise sales Contribution**


Source: Company Data

**Relative Valuation**
**Exhibit 2: Financial Matrix**

| Company    | Sales (Rs mn) |        |        | EBITDA (%) |       |       | PAT (Rs mn) |       |       |
|------------|---------------|--------|--------|------------|-------|-------|-------------|-------|-------|
|            | FY18          | FY19E  | FY20E  | FY18       | FY19E | FY20E | FY18        | FY19E | FY20E |
| Sandhar    | 19,464        | 23,530 | 27,745 | 10.7       | 11.3  | 11.7  | 656         | 1,225 | 1,579 |
| Minda Ind  | 44,706        | 59,731 | 69,433 | 11.9       | 12.3  | 12.5  | 2,834       | 3,497 | 4,335 |
| Minda Corp | 25,934        | 30,972 | 35,934 | 10.5       | 10.7  | 10.9  | 1,417       | 1,740 | 2,174 |
| Endurance  | 65,381        | 77,983 | 88,311 | 14.2       | 13.8  | 13.2  | 4,176       | 4,832 | 5,217 |

Source: Karvy Stock Broking, Bloomberg

**Exhibit 3: Valuation Matrix**

| Company                | Stock Price (Rs) | Mkt Cap (Rs mn) | PE (x) |       |       | EV/EBITDA (x) |       |       | ROE (%) |       |       |
|------------------------|------------------|-----------------|--------|-------|-------|---------------|-------|-------|---------|-------|-------|
|                        |                  |                 | FY18   | FY19E | FY20E | FY18          | FY19E | FY20E | FY18    | FY19E | FY20E |
| Sandhar Technologies   | 310              | 18,659          | 28.4   | 16.6  | 11.8  | 9.8           | 7.7   | 6.1   | 14.0    | 16.6  | 20.3  |
| Minda Industries       | 324              | 84,591          | 29.8   | 24.2  | 19.6  | 22.0          | 18.1  | 15.0  | 25.3    | 22.2  | 22.8  |
| Minda Corp             | 140              | 32,243          | 22.5   | 18.0  | 14.4  | 14.8          | 14.5  | 12.0  | 20.8    | 18.5  | 18.0  |
| Endurance Technologies | 1,073            | 151,283         | 36.1   | 34.4  | 31.8  | 16.3          | 15.3  | 13.7  | 21.4    | 20.4  | 18.8  |

Source: Karvy Stock Broking, Bloomberg

**Sandhar Technologies**
**Exhibit 4: Competitive Landscape**

| Y/E March 18 (Rs mn)    | Minda Ind           | Minda Corp               | Endurance | Sandhar    |
|-------------------------|---------------------|--------------------------|-----------|------------|
| Sales                   | 44,706              | 25,934                   | 65,381    | 19,464     |
| EBITDA                  | 5,338               | 2,729                    | 9,278     | 2,083      |
| PAT                     | 3,309               | 1,417                    | 3,908     | 662        |
| Net worth               | 13,920              | 7,375                    | 16,603    | 6,342      |
| Net Debt                | 3,830               | 6,910                    | 1,627     | 2110       |
| <hr/>                   |                     |                          |           |            |
| CMP (Rs)                | 324                 | 140                      | 1,073     | 310        |
| Mcap (in mn)            | 84,591              | 32,243                   | 151,283   | 18,659     |
| <b>Sales Mix</b>        |                     |                          |           |            |
| Domestic Sales (%)      | 82                  | 69                       | 67        | 87         |
| International Sales (%) | 18                  | 31                       | 33        | 13         |
| 2W Sales (%)            | 56                  | 37                       | 62        | 59         |
| 4W Sales (%)            | 44                  | 19                       | 37        | 14         |
| CV Sales (%)            | 0                   | 33                       | 0         | 27         |
| OEM (%)                 | 88                  | 88                       | 97        | 99         |
| Replacement (%)         | 12                  | 12                       | 3         | 1          |
| <hr/>                   |                     |                          |           |            |
| <b>Key Customers</b>    | Bajaj               | Bajaj Auto               | Bajaj     | Hero       |
|                         | TVS                 | Ashokley                 | RE        | TVS        |
|                         | HMSI                | Maruti                   | FCA Italy | RE         |
|                         | Yamaha              | HMSI                     |           | Honda Cars |
|                         | Maruti,             | Hero                     |           |            |
|                         | M&M,<br>VW, Daimler | M&M, Tata,<br>VW, Yamaha |           |            |

Source: Company Data

**Sandhar Technologies**
**Financials:**
**Exhibit 5: Income Statement (Consolidated)**

| Y/E Mar (Rs Mn)          | FY16         | FY17         | FY18         | FY19E          | FY20E        |
|--------------------------|--------------|--------------|--------------|----------------|--------------|
| Net Sales                | 15,132       | 16,114       | 19,464       | 23,530         | 27,745       |
| YoY (%)                  | 2.1          | 6.5          | 20.8         | 20.9           | 17.9         |
| Raw material cost        | 9,014        | 9,445        | 11,363       | 13,737         | 16,198       |
| Employee Cost            | 2,018        | 2,300        | 2,648        | 3,130          | 3,573        |
| Admin Expenses           | 2,686        | 2,903        | 3,370        | 4,007          | 4,725        |
| Total expenses           | 13,719       | 14,647       | 17,381       | 20,874         | 24,496       |
| <b>EBIDTA</b>            | <b>1,413</b> | <b>1,467</b> | <b>2,083</b> | <b>2,656</b>   | <b>3,250</b> |
| EBIDTA Margin (%)        | 9.3%         | 9.1%         | 10.7%        | 11.3%          | 11.7%        |
| Depreciation             | 552          | 584          | 675          | 739            | 776          |
| EBIT                     | 862          | 883          | 1,408        | 1,917          | 2,474        |
| Interest                 | 424          | 426          | 432          | 266            | 210          |
| Other income             | 52           | 76           | 47           | 99             | 78           |
| PBT                      | 490          | 533          | 1,023        | 1,750          | 2,341        |
| (-) Tax                  | 115          | 104          | 314          | 525            | 702          |
| Tax/ PBT                 | 23.4         | 19.6         | 30.7         | 30.0           | 30.0         |
| <b>PAT</b>               | <b>375</b>   | <b>429</b>   | <b>709.4</b> | <b>1,225.1</b> | <b>1,639</b> |
| Share of Profit /Loss JV | 0.0          | (8.1)        | (53.2)       | (100.0)        | (60.0)       |
| PAT                      | 375          | 420.7        | 656.2        | 1,125.1        | 1,579        |
| PAT Margin (%)           | 2.5%         | 2.6%         | 3.4%         | 4.8%           | 5.7%         |
| Extraordinary items      | 37.4         | 4.3          | 0.0          | 0.0            | 0.0          |
| Reported Profit          | 412          | 425.0        | 656.2        | 1,125.1        | 1,579        |

Source: Company Data, Karvy Stock Broking



**Sandhar Technologies**
**Exhibit 6: Balance sheet (Consolidated)**

| Y/E Mar (Rs Mn)          | FY16         | FY17         | FY18          | FY19E        | FY20E        |
|--------------------------|--------------|--------------|---------------|--------------|--------------|
| Equity capital           | 512          | 512          | 602           | 602          | 602          |
| Reserves                 | 2,225        | 2,510        | 5,741         | 6,595        | 7,795        |
| Net worth                | 2,736        | 3,021        | 6,342         | 7,197        | 8,397        |
| Total Loans              | 3,934        | 4,670        | 4,360         | 2,110        | 1,410        |
| Minority interest        | 18           | 22           | 28            | 28           | 28           |
| Deferred Tax Liability   | 74           | 75           | 82            | 82           | 82           |
| <b>Total Liabilities</b> | <b>6,763</b> | <b>7,788</b> | <b>10,813</b> | <b>9,418</b> | <b>9,917</b> |
| Gross block              | 8,224        | 9,579        | 10,595        | 11,495       | 12,395       |
| Less: Acc. Dep.          | 2,940        | 3,630        | 3,820         | 4,559        | 5,335        |
| Net block                | 5,284        | 5,948        | 6,776         | 6,936        | 7,061        |
| Work in progress         | 552          | 292          | 719           | 719          | 719          |
| Investments              | 90           | 108          | 244           | 444          | 644          |
| Inventories              | 1,598        | 1,618        | 2,057         | 2,487        | 2,932        |
| Debtors                  | 1,681        | 2,053        | 2,674         | 2,858        | 3,370        |
| Cash                     | 60           | 67           | 2,560         | 206          | 182          |
| Loans and advances       | 579          | 486          | 661           | 874          | 1,030        |
| Current assets           | 3,919        | 4,225        | 7,952         | 6,424        | 7,514        |
| Current liabilities      | 2,985        | 2,659        | 4,616         | 4,789        | 5,647        |
| Provisions               | 98           | 127          | 262           | 317          | 373          |
| Net current assets       | 836          | 1,439        | 3,074         | 1,318        | 1,494        |
| <b>Total Assets</b>      | <b>6,763</b> | <b>7,788</b> | <b>10,813</b> | <b>9,418</b> | <b>9,917</b> |

Source: Company Data, Karvy Stock Broking

**Exhibit 7: Cash Flow Statement (Consolidated)**

| Y/E Mar (Rs Mn)       | FY16        | FY17        | FY18       | FY19E      | FY20E        |
|-----------------------|-------------|-------------|------------|------------|--------------|
| Net profit            | 337         | 416         | 656        | 1,125      | 1,579        |
| Depreciation          | 552         | 584         | 675        | 739        | 776          |
| Deferred tax          | -31         | 5           | 5          | 0          | 0            |
| Change in W/C         | -245        | -596        | 858        | -598       | -199         |
| Operating cash flow   | 613         | 409         | 2,194      | 1,266      | 2,155        |
| Capex                 | -1,217      | -988        | -1,443     | -900       | -900         |
| Investments           | -59         | -19         | -136       | -200       | -200         |
| Investing cash flow   | -1,276      | -1,007      | -1,579     | -1,100     | -1,100       |
| <b>Free Cash Flow</b> | <b>-604</b> | <b>-579</b> | <b>751</b> | <b>366</b> | <b>1,255</b> |
| Dividend              | -217        | -95         | -292       | -270       | -379         |
| Equity                | 24          | -37         | 2,479      | 0          | 0            |
| Debt                  | 844         | 735         | -309       | -2,250     | -700         |
| Financing cash flow   | 651         | 604         | 1,878      | -2,520     | -1,079       |
| Net change in cash    | -12         | 7           | 2,493      | -2,354     | -24          |
| Opening cash          | 73          | 60          | 67         | 2,560      | 206          |
| Closing cash          | 60          | 67          | 2,560      | 206        | 182          |

Source: Company Data, Karvy Stock Broking

**Sandhar Technologies**
**Exhibit 8: Ratios (Consolidated)**

| Valuation Ratios         | FY16  | FY17  | FY18  | FY19E | FY20E |
|--------------------------|-------|-------|-------|-------|-------|
| EPS (Rs)                 | 7.3   | 8.2   | 11.0  | 18.7  | 26.2  |
| Book value (Rs)          | 53    | 59    | 105   | 120   | 140   |
| P/E (x)                  | 42.3  | 37.7  | 28.4  | 16.6  | 11.8  |
| EV/EBDITA (x)            | 14.0  | 14.0  | 9.8   | 7.7   | 6.1   |
| P/B (x)                  | 5.8   | 5.2   | 2.9   | 2.6   | 2.2   |
| EV/Sales (x)             | 1.5   | 1.4   | 1.0   | 0.9   | 0.7   |
| ROCE (%)                 | 12.7% | 11.6% | 11.7% | 13.8% | 18.5% |
| ROE (%)                  | 14.1% | 14.6% | 14.0% | 16.6% | 20.3% |
| Dividend / Share (Rs)    | 3.5   | 1.5   | 4.0   | 3.7   | 5.2   |
| D/E (x)                  | 1.4   | 1.5   | 0.28  | 0.26  | 0.15  |
| Gross Asset Turnover (x) | 1.9   | 1.7   | 1.8   | 2.0   | 2.2   |
| Avg Net WC Days          | 16    | 24    | 18    | 13    | 16    |
| Net W/C (% of sales)     | 5.1%  | 8.5%  | 2.6%  | 4.7%  | 4.7%  |

Source: Company Data, Karvy Stock Broking

| Stock Ratings | Absolute Returns |
|---------------|------------------|
| Buy           | > 15%            |
| Hold          | 5-15%            |
| Sell          | < 5%             |

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### Disclosures Appendix

#### Analyst certification

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