



JOINDRE CAPITAL SERVICES LTD.

SEBI REGN NO. INH000002061 / INZ000174034

RESEARCH REPORT

11TH Sept 2018

SANDHAR TECHNOLOGIES LIMITED

BSE : SANDHAR

Sector: AUTO COMPONENTS

BSE: 541163

View - BUY

CMP : Rs. 364.

Target Price: Rs 460 (In next 12 to 15 mths)

BUSINESS BACKGROUND

Incorporated in 1987, a Gurgaon based company, Sandhar Technologies (Sandhar) has been promoted by a first-generation entrepreneur, Jayant Davar, Co-Chairman and Managing Director of the company, who has 30 years of experience in the OEM component manufacturing industry. Sandhar is a component supplier primarily catering to automotive OEMs and is largely focused on safety and security systems of vehicles with a pan-India and growing international presence.

Sandhar commenced operations as a sheet metal product supplier to Hero Honda & has steadily diversified into locks, automotive mirrors, handles, zinc and aluminium PDC, plastic injection moulding, dyes and moulds, wheel rims, handle bars, clutches, operator cabins, and automotive electronics

INVESTMENT HIGHLIGHTS

Steady Financial Performance for Q1 FY19 –

Sandhar reported a strong set of FY18 numbers with net sales at Rs 1984.11 crs as compared to a revenue of Rs 1747.60 crs last year, with EBIDTA placed at Rs 208.29 crs from Rs 146.66 crs last year with the PAT placed at Rs 65 crs from Rs 41 crs up by 59% YoY. Sandhar has declared a dividend of 20% for FY18.

For Sandhar Q1FY19 was noteworthy with Sales up by 26% at Rs 575 crs with EBIDTA up by 12% at Rs 57 crs with PAT at Rs 23 crs up by 48%. EBIDTA margins in QFY19 stood at 10.1% from 11.1% in Q1 last year.

Sandhar enjoys a diversified product basket –

Sandhar's portfolio is well diversified, comprising of various products like lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, aluminium spools, spindles and hubs. It 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.

Going ahead it plans to capitalize on current trends in the automotive sector such as increasing focus on safety, fuel efficiency, comfort and customization to meet its customer's requirements. It is testing various technology driven and high margin products like smart keys, auto relays, switches, USB chargers, parking assistant systems, fuel filters and modules, fuel senders, starter motors and shark-finned antennas, among others in partnership with its OEM customers.

KEY DATA

FACE VALUE	Rs	10.00
DIVD YIELD %		0.54
52 WK HI/LOW		451/305
NSE CODE		SANDHAR
BSE CODE		SANDHAR
MARKET CAP		RS 2193 CRS

SHAREHOLDING PATTERN

PROMOTERS	-	70%
BANKS, MFs & DIs	-	7%
FIs	-	7%
PUBLIC	-	16%

KEY FUNDAMENTALS

YE	FY19	FY20	FY21
Rev Gr%	18	18	16
EBIDTA Gr%	14	19	16
PAT Gr%	37	36	18
EPS Gr%	37	36	18
EPS (Rs)	14.95	20.44	24.09
ROE %	13	16	16
ROCE %	15	16	17
P/E(x)		17	15



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Sandhar enjoys strong relationships with major OEMs –

Sandhar's enjoys a long standing relationships with leading OEMs like Hero, TVS, Royal Enfield, Suzuki, Honda, Tata Motors, Ashok Leyland, Atlas Copco, Escorts, JCB, TAFE, Volvo etc.

Its OEM customer base has grown from 58 in FY13 to 79 in FY17 to include OEMs like Caterpillar, CTS, International Tractors, JCB, Kobelco, Mahindra & Mahindra, and Hyundai Construction over the years. The top-five customers of the company contribute around 67.2% of the total revenue as on FY17.

Currently, 2W, PV & CV and off highway contribute 58%, 30%, and 9% respectively to its revenues

Sandhar has production facilities close to its customers –

Sandhar's manufacturing facilities are in close proximity to its OEM customers' plants in all key auto-clusters in India. Its manufacturing facilities at Gurugram, Chennai, and Bengaluru are close to plants of Hero, Royal Enfield, and TVS, respectively.

It also has manufacturing facilities in Mexico and Spain, and an assembly and packaging centre in Poland, to cater to customers in western Europe, eastern Europe and NAFTA markets.

This presence in all key auto-clusters in India allows it to optimise deliveries to the customers and facilitates greater interaction. This multi-location strategy provides it with an opportunity to expand its customer base as well as product portfolio.

Product diversification to help achieve new scale –

Going ahead Sandhar will be focussing more on offering high value added products like increasing focus on safety, fuel efficiency, comfort, customization, entertainment and communication, as well as auto electronics products to meet the OEM's requirements.

Sandhar is also exploring various technology driven and high margin products such as smart keys, auto relays, switches, USB chargers, parking assistant systems, fuel filters, fuel modules, fuel senders, starter motors and shark-finned antennas, among others in partnership with its OEM customers.

We believe Sandhar aims to capture dominant market share in each of our new products and continuously upgrade its existing products would certainly help them to achieve new scale.

In-house research and development, design capability and technical collaborations –

Sandhar has built via its inhouse research and development efforts developed a modern and advanced technology through in-house research and development activities, joint ventures and technical collaborations. Research and development is a critical part of their business and Sandhars R&D team primarily works on the development of new products, designing, prototyping, and product upgrades.

Further, company currently has six Joint Ventures which manufacture products such as high precision press parts, insert moulded contact plates, AVN panels, and switches. In addition to Joint Ventures, company also have entered into technical collaborations, inter alia, with: (i) Honda Lock for availing technical advice from Honda Lock in relation to door mirrors, outside door handles, and key sets for automobiles and motorcycles, and (ii) JEM Techno for availing technical advice from JEM Techno in relation to relays used in automobiles.

Moreover, company also collaborated with leading international players for development of parking assistant systems, fuel filters, fuel modules, starter motors and shark-finned antennas. We believe the company's joint ventures and technical collaborations provide it a strong competitive advantage by enabling them to exploit technologies and expertise optimally.



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Sandhar plans to increase wallet share from existing OEM customers –

Sandhar would continue focus on increasing its contribution per vehicle and work closely with OEM's to develop a broader portfolio. Currently, Sandhar manufactures 21 products with varieties which cater to different automotive segments. Going ahead, the company intends to achieve this by marketing, and thereby expanding the sale of each of our existing products to new or existing customers who do not purchase such products from Sandhar.

We believe there is significant potential to increase the wallet share from existing OEM. As a part of company's strategy, Sandhar is also in the process of commissioning manufacturing facilities in: (i) Oragadam, Chennai, for manufacturing of aluminium die casting components, wheel rim assemblies, cabins and fabrication, (ii) Jaipur, for cabins and fabrication, and (iii) Hosur, for aluminium die casting components.

Sandhar enjoys a experienced Board and Senior Management Team –

Sandhar has a well qualified management team that has significant experience in all aspects of their business. The Company's management team is led by Promoter Mr. Jayant Davar, who serves as a Co-Chairman and Managing Director. He is a mechanical engineer with 30 years of experience in the industry of auto components.

Further, management team has executed restructuring strategies to fix structural issues arising from legacy acquisitions and has successfully integrated new acquisitions. The Management team has also been instrumental in establishing and maintaining relationships with their customers. We believe they have a strong platform for growth based on the strength of their senior management team and their experience.

In the last 12 years, company has also received investment from two private equity investors, namely the Actis Group and GTI. These investments by Actis Group and GTI, have help them in enhancing and strengthening their operations, financial and internal controls, as well as corporate governance standards.

Sandhar also has promoted several JVs in Subsidiaries which are also value accretive for its business growth –

Company have also entered into the following JV arrangements –

Indo Toolings with JBM Auto for Commercial tooling activities

Sandhar Han Sung with Han Sung for manufacture of high precision press parts, insert moulded contact plates & switches

Jinyoung Sandhar with Jinyoung Electro-Mechanics for the assembly of AVN panels & switches

Sandhar Ecco-Green Energy DMRG & Tarun Agarwal for EPC contracts in the field of solar power generations

Sandhar Daewha with Daewha for Fuel Pumps Mfg & assembly of oil fuel module, fuel filters, starter motors & wiper bladders

Sandhar Daeshin which will manufacture Gear Shifters (Manual & Automatic) and Parking Brake brake levers

Sandhar Amkin with the Amkin Group for manufacture of safety rider helmets & other headgears for two wheelers

Sandhar Whetron TC JV will manufacture Rear Parking Sensors, Cameras, Automatic Parking, Anti Theft Systems, Tyre Pressure monitoring, Auto Lighting, Battery management systems and Door Open Alert systems.



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Sandhar is in a sweet spot as growth across the Twos, PCs & CVs & OHV segments looks strong –

With the Automobile sector showing strong volume growth trends in 2019 after a strong 2018 we believe that most OEM players across the Passenger Car and Commercial Vehicle segments are confident of a continued double digit growth. Also OHV players are riding high on strong infra and strong demand with sales also expected to grow at a healthy pace in 2019.

Additionally the Two Wheeler segment which saw a lacklustre performance last year has seen a strong pickup in sales volumes from all the 3 frontline manufacturers like Bajaj Auto, Hero Motor and TVS Motors. LATL is a large supplier to Bajaj Auto, Hero Motor, TVS Motor, Piaggio, Honda, Yamaha and Suzuki. Similarly within the Passenger Car segment Sandhar is a key vendor catering to Honda while in the CV & OHV segments its customers include Tata Motors, ALL, Mahindra, VE Commercial, SML Isuzu, & JCB.

Also the new Jvs are likely to contribute to full production from FY20 onwards. Also the company has got fresh orders of Rs 276 crs in the Q1 of FY19 out of which 50% will be reflected in the current year and thereafter on a 100% level from next year onwards.

Sandhar will repay debts to the tune of Rs 225 crs from the IPO Funds –

Sandhar had total debts to the tune of Rs 219 crs as on March 2018 as compared to a tangible networth of Rs 634 crs. In Q1 FY19 Sandhar has already repaid debts to the tune of Rs 225, crs and has generated operating cashflows to the tune of Rs 50 cr in Q1FY19. More importantly the company has been deploying its internal accruals largely in creating new assets which enhances its earnings potential going ahead.

The company has already repaid debts to the tune of Rs 225 crs from the IPO funds and total loans now stand at Rs 129 crs largely meant for increased working capital requirements.

Sandhar enjoys a strong balance sheet with huge scalability potential going ahead –

Sandhar runs a strong business model covering multiple product segments across multi locations with a efficient working capital management while it continues to invest on a sustained basis largely from its internal accruals.

We expect that going ahead overall bottomline growth in the next 3 years starting FY18 onwards should easily increase at a CAGR of 23.-25% and with capex funded largely from internal cash flows. Hence going ahead we expect both the ROCE and ROE to improve to 17% and 16% by FY20 from 13% and 14% in FY18.



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Business Outlook & Stock Valuation –

On a rough cut basis, in FY19, Topline will see a steady rise wherein Topline is expected to touch Rs 2341 crs in FY19E.

On the bottomline level we expect the company to record a PAT of Rs 90 crs in FY19E. Thus on a conservative basis, Sandhar should record a EPS of Rs 14.95 for FY19E. For FY20E and FY21E our expectation is that earnings traction for Sandhar would continue to be strong wherein we expect a EPS of Rs 20.44 and Rs 24.09 respectively.

Also another attractive point for Sandhar is that EPS growth over the next three years between FY18 to FY21 is expected to average 25% plus YoY but valuation multiples look low at 18x on FY20E and 15x FY21E

To add to this at the current market cap of Sandhar at Rs 2193 crs, the Sandhar stock trades a market cap to sales multiple of just 0.93x on FY19E whereas the potential revenue over the next 2 years is over Rs 3200 crs.

Also with Sandhar reducing its debts significantly we expect the ROE to improve to around 16% by FY20. Looking at Sandhar's steady financial track record, strong product domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Also the Sandhar management has cleverly positioned its new subsidiaries with new products which could become blockbusters in the next 2-3 years once the market for these develops in a big opportunity. Hence the present earnings don't take in to account the earnings upside expected here and could offer an incremental value upside in the longer term. We believe that investments which are being incubated in JVs via subsidiaries can scale up business significantly for Sandhar in the years ahead.

Hence we believe that the Sandhar stock should be purchased at the current price for a price target of around Rs 460 over the next 12 to 15 months.

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FINANCIALS

For the Year Ended March RsCrs	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	1747.6	1984.11	2341.25	2762.675	3204.70
EBIDTA	146.66	208.29	236.47	281.79	326.8797
EBIDTA %	8.39	10.50	10.10	10.20	10.20
Interest	42.62	43.17	20.00	18.00	19.00
Depreciation	58.35	67.32	80.00	93.00	105.00
Non Operational Other Income	7.62	4.74	4.00	4.00	4.00
Profit Before Tax	52.5	102.33	140.47	174.79	206.88
Profit After Tax	41.25	65.61	90.00	123.00	145.00
Diluted EPS (Rs)	8.06	10.90	14.95	20.44	24.09
Equity Capital	51.15	60.19	60.19	60.19	60.19
Reserves	250.86	574.05	650.05	758.05	883.05
Borrowings	391.00	219.82	130.00	115.00	130.00
GrossBlock	610.24	733.00	803.00	883.00	973.00
Investments	3.59	8.56	8.56	8.56	8.56

Source Company our Estimates

KEY CONCERNS

Any sharp down turn in the Automobile Industry can impact Sandhars financials adversely.

Also any negative development in the new product launches of OEMs could also impact Sandhars financials negatively

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