

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

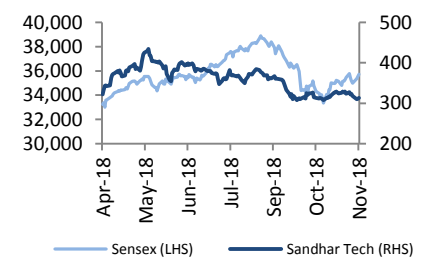
CMP:	Rs310
Target Price:	Rs420
Previous Target Price	Rs472
Upside (%)	35%

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.

Analysts Contact
Mahesh Bendre
 +91 22 6176 0832
 mahesh.bendre@karvy.com

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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).

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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%
EBITDA	586	506	15.8%	492	19.1%
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%
PAT	260	196	33.0%	219	18.9%
Equity	602	602	0.0%	602	0.0%
EPS	4.3	3.3	33.0%	3.6	18.9%
Margins	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

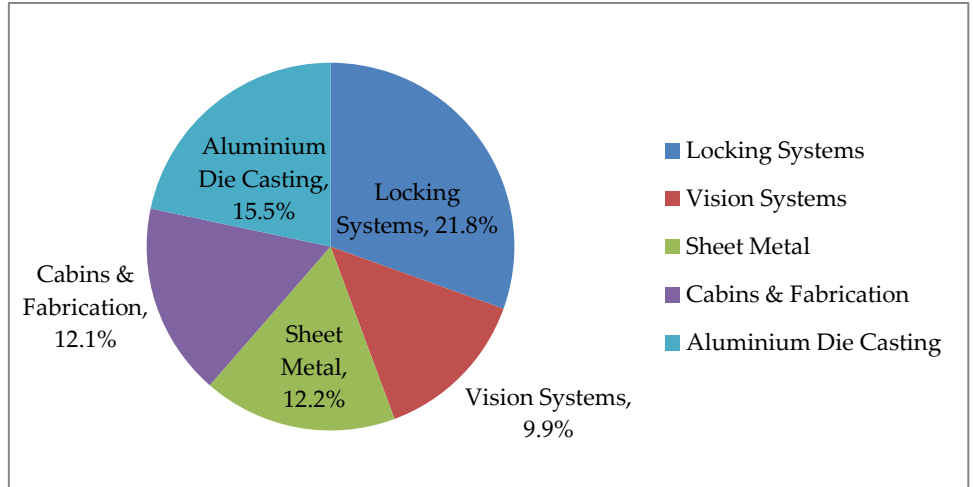
Source: Karvy Stock Broking

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

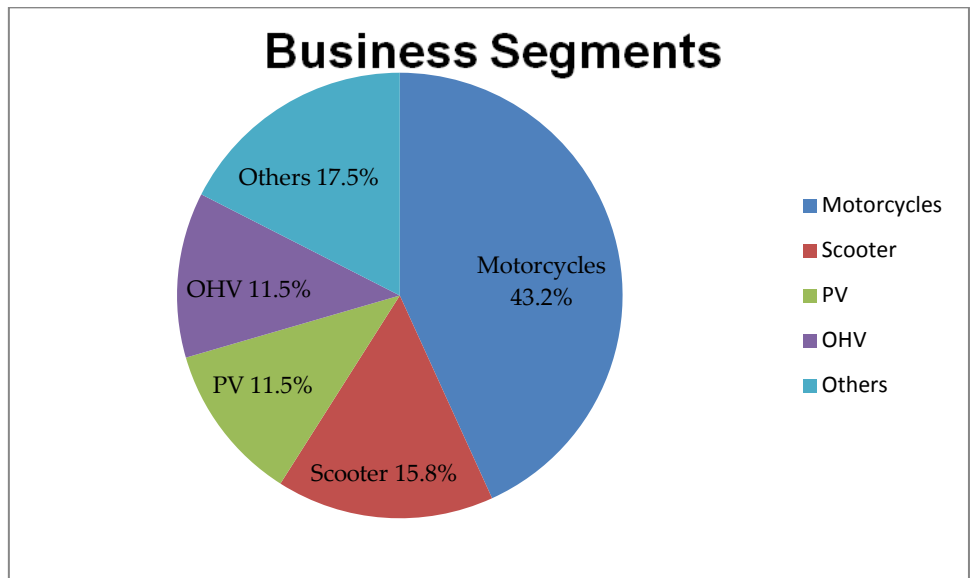


Source: Company Data

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

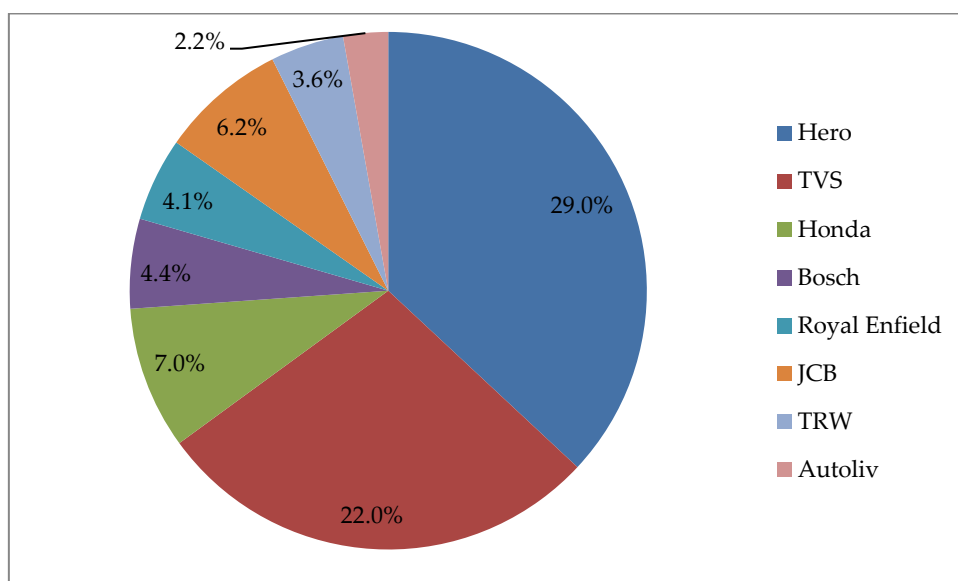


Source: Company Data

Customer-wise sales Contribution

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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
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CMP (Rs)	324	140	1,073	310
Mcap (in mn)	84,591	32,243	151,283	18,659
Sales Mix				
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
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Key Customers	Bajaj	Bajaj Auto	Bajaj	Hero
	TVS	Ashokley	RE	TVS
	HMSI	Maruti	FCA Italy	RE
	Yamaha	HMSI		Honda Cars
	Maruti,	Hero		
	M&M, VW, Daimler	M&M, Tata, 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
EBIDTA	1,413	1,467	2,083	2,656	3,250
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
PAT	375	429	709.4	1,225.1	1,639
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
Total Liabilities	6,763	7,788	10,813	9,418	9,917
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
Total Assets	6,763	7,788	10,813	9,418	9,917

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
Free Cash Flow	-604	-579	751	366	1,255
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%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-61491500

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