

India Research

Initiating Coverage

Bloomberg: SANDHAR IN  
Reuters: SNTL.NS

BUY

**Diversified Auto Ancillary at attractive Valuations**

*Sandhar Technologies Ltd (Sandhar) is a multi-product auto component supplier based out of Gurgaon. It is a dominant Auto lock assemblies and Rear View Mirror manufacturer in India. It has strong relationship with OEMs like Hero Motocorp, TVS Motor, Royal Enfield and Honda Cars.*

**Sandhar's 2W business (locks, mirrors & wheels - 55% of sales) is on a strong footing:** Sandhar enjoys dominant share in locks and mirrors with 2W OEM's. Currently it has 100% share of business with Hero Motocorp, TVS Motors and Royal Enfield (~54% of 2W industry). We anticipate Sandhar's 2W segment to grow in double digits over the next 2-3 years on account of (a) overall 2W industry growth in India due to increasing youth population and rural recovery b) Its shift towards introducing premium products (Smart locks, ORVM mirrors etc ) resulting in increase in content per vehicle and c) its recent entry in scooter segment (TVS Jupiter).

**4W and Cabin Fabrication Business (~20% of sales) is on up cycle:** Sandhar has been supplying auto components to Honda Cars since last 20 years. Over the last 4 years its content per vehicle in Honda cars has grown from 8K to 12K. Honda's plan to introduce 6 new models and increasing its market share from 5% to 10% in India over the next 3-4 years augurs well for Sandhar. Sandhar has set-up a new facility in Jaipur for supplies of fabrication parts (operator cabin and fabrication components) across JCB's products line. It expects its cabin revenues to double to ~Rs4 bn in two years with new facility addition.

**New plants to be operational:** Currently Sandhar has 34 manufacturing units and it is in process of commissioning 5 more plants in CY18. Out of ~5bn capex incurred by it over the last 4 years, Rs2.5bn capex is yet to start generating sales for the company (sales potential of ~Rs6bn). We estimate 18.7% sales CAGR for Sandhar over FY18-20.

**PAT margins to expand from 3.5 to 5.8% - Profit to double over FY18-20:** We estimate Sandhar's PAT margins to expand from 3.5 % to 5.8% over FY18-20E on account of a) 70bps 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 expected to report earnings CAGR of 52.2% over FY18-20E resulting in profits doubling over the same period.

**Attractive Valuations - BUY:** Sandhar is among the top five diversified auto ancillary listed entities in India. It has exhibited steady and consistent operating history. We believe, Sandhar has now entered into a high growth phase wherein its sales and PAT are expected to grow at 18.7% and 52.2% over FY18-20E respectively. Further we believe, JVs will enable sustenance of growth beyond FY20E. We initiate coverage on Sandhar with a BUY rating and target price of Rs474 (PER of 18x FY20E earnings - ~20% average discount to peers) on the back of 20% ROE and debt free credentials.

**Exhibit 1: Key Financials**

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	14,821	15,132	16,269	19,358	23,432	27,267
EBIDTA	1,391	1,413	1,458	2,070	2,578	3,108
EBIDTA (%)	9.4	9.3	9.0	10.70	11.0	11.4
PAT	384	375	401	685	1,160	1,585
EPS (Rs)	7.5	7.3	7.8	11.4	19.3	26.3
YoY (%)	15.5	(2.4)	6.9	70.9	69.4	36.6
ROE (%)	16.5	14.1	13.9	14.3	16.8	20.4
EV/EBIDTA (x)	NA	NA	NA	11.2	8.9	7.1
P/E (x)	NA	NA	NA	32.7	19.3	14.1

Source: Company, Karvy Stock Broking

**Recommendation**

CMP:	Rs372
Target Price:	Rs474
Upside (%)	27.5%

**Stock Information**

Market Cap. (Rs bn / US\$ mn)	22/0.35
52-week High/Low (Rs)	376/306
3m ADV (Rs mn /US\$ mn)	-/-
Beta	-
Sensex/ Nifty	34,101/10,458
Share outstanding (mn)	60

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**Exhibit 2: Statement of Profit and Loss**

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	14,821	15,132	16,269	19,358	23,432	27,267
YoY (%)	17.2	2.1	7.5	19.0	21.0	16.4
Raw material cost	9,080	9,014	9,512	11,125	13,466	15,670
Employee Cost	1,843	2,018	2,354	2,667	3,156	3,564
Admin Expenses	2,507	2,686	2,945	3,496	4,232	4,925
Total expenses	13,429	13,719	14,811	17,288	20,854	24,158
<b>EBIDTA</b>	<b>1,391</b>	<b>1,413</b>	<b>1,458</b>	<b>2,070</b>	<b>2,578</b>	<b>3,108</b>
EBIDTA Margin (%)	9.4	9.3	9.0	10.7	11.0	11.4
Depreciation	524	552	603	679	742	800
EBIT	868	862	855	1,392	1,836	2,309
Interest	410	424	427	465	247	100
Other income	57	52	72	51	68	57
PBT	514	490	500	978	1,658	2,265
(-) Tax	130	115	99	293	497	679
Tax/ PBT	25.3	23.4	19.8	30.0	30.0	30.0
Extraordinary Items	-	37.4	5.1	-	-	-
<b>PAT</b>	<b>384</b>	<b>412</b>	<b>406</b>	<b>685</b>	<b>1,160</b>	<b>1,585</b>

Source: Company Data, Karvy Stock Broking

**Sandhar Technologies**

**Company Synopsis** - Presently, Sandhar is engaged into designing and manufacturing of diverse range of automotive components for safety and security systems of vehicles. It dominates the two-wheeler locking systems market and the commercial vehicle rear view market in India. Its Customer portfolio consists of 79 Indian and global OEMs and 5 key Customers which contribute overall ~70% of its total revenues are Hero Motocorp, TVS Motor, Royal Enfield, Honda Cars and Bosch.

Sandhar manufactures products such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, aluminium spools, spindles, and hubs. Other product categories including wheel assemblies, handle bar assemblies, brake panel assemblies, sheet metal components. The Company has 31 manufacturing facilities across key auto-clusters in the northern, southern, and western parts of India, and most of their facilities are in close proximity to the plants of our OEM customers.

Shareholding Pattern	Percentage (%)
Promoter	70.14
FPIs	3.76
DIIs	9.06
Others	17.04
Total	100

Source: Company Data

**Exhibit 3: Balance sheet**

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity capital	102	512	512	602	602	602
Reserves	2,490	2,225	2,502	5,933	6,674	7,687
Net worth	2,592	2,736	3,013	6,535	7,276	8,289
Total Loans	3,090	3,192	3,925	1,675	1,175	275
Deferred Tax Liability	103	74	73	73	73	73
<b>Total Liabilities</b>	<b>5,785</b>	<b>6,002</b>	<b>7,012</b>	<b>8,283</b>	<b>8,524</b>	<b>8,637</b>
Gross block	7,163	8,224	9,446	10,446	11,296	12,146
Less: Acc. depreciation	2,401	2,940	3,482	4,161	4,902	5,702
Net block	4,762	5,284	5,964	6,285	6,393	6,444
Work in progress	405	552	292	292	292	292
Investments	30	41	41	41	41	41
Inventories	1,572	1,598	1,671	2,137	2,656	3,091
Debtors	1,891	1,681	2,111	2,256	2,889	3,362
Cash	73	60	73	894	637	509
Loans and advances	393	413	440	524	634	738
Current assets	3,928	3,753	4,295	5,811	6,816	7,700
Current liabilities	3,211	3,534	3,442	3,982	4,820	5,609
Provisions	129	95	138	165	199	232
Net current assets	588	124	714	1,664	1,797	1,860
<b>Total Assets</b>	<b>5,785</b>	<b>6,002</b>	<b>7,012</b>	<b>8,283</b>	<b>8,524</b>	<b>8,637</b>

Source: Company Data, Karvy Stock Broking

**Exhibit 4: Cash Flow Statement**

Cash Flow	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net profit	384	337	396	685	1,160	1,585
Depreciation	524	552	603	679	742	800
Deferred tax	(22)	(31)	-	-	-	-
Change in W/C	(66)	452	(578)	(129)	(390)	(190)
Operating cash flow	820	1,310	420	1,234	1,512	2,195
Capex	(1,256)	(1,220)	(1,022)	(1,000)	(850)	(850)
Investments	-	(11)	-	-	-	-
Investing cash flow	(1,256)	(1,231)	(1,022)	(1,000)	(850)	(850)
<b>Free Cash Flow</b>	<b>(436)</b>	<b>90</b>	<b>(602)</b>	<b>234</b>	<b>662</b>	<b>1,345</b>
Dividend	(111)	(217)	(95)	(164)	(419)	(572)
Equity	248	24	(24)	3,000	-	-
Debt	345	102	733	(2,250)	(500)	(900)
Financing cash flow	482	(92)	615	586	(919)	(1,472)
Net change in cash	46	(12)	13	821	(257)	(127)
Opening cash	27	73	60	73	894	637
Closing cash	73	60	73	894	637	509

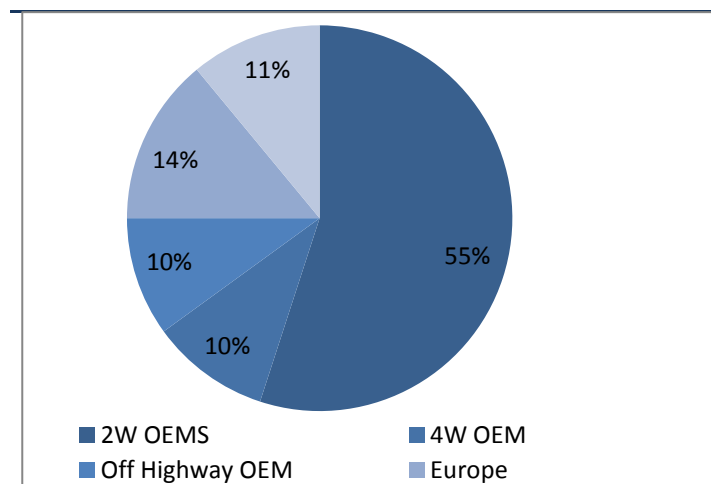
Source: Company Data, Karvy Stock Broking

**Sandhar Technologies**
**Company and Promoter Background**

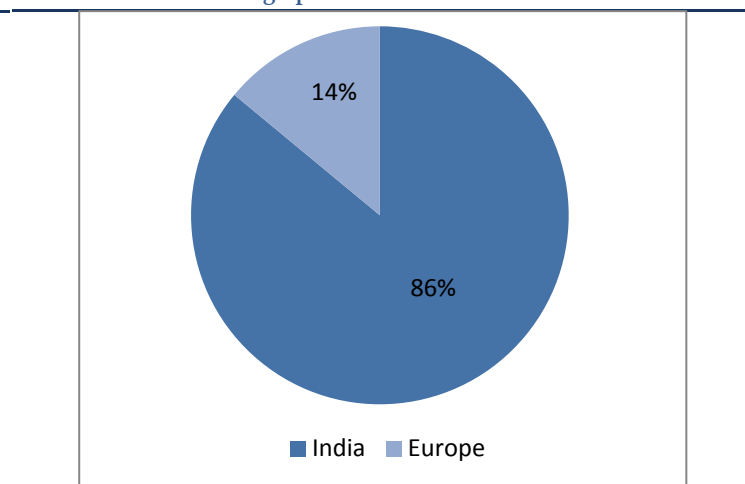
Sandhar Technologies (Incorporated in 1987) is a Gurgaon based auto component supplier to Automotive OEMs. Over the last 30 year the Company has thrived from single manufacturing unit to 34 facilities under the leadership of Mr. Jayant Davar who is a first generation entrepreneur

Sandhar manufactures products such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, aluminium spools, spindles, and hubs. It dominates the two-wheeler locking systems market and the commercial vehicle rear view market in India. Its Customer portfolio consists of 79 Indian and global OEMs and 5 key Customers which contribute overall ~70% of its total revenues are Hero Motocorp, TVS Motor, Royal Enfield, Honda Cars and Bosch.

- Sandhar is led by Jayant Davar, Founder, Co-chairman and Managing Director who is a Mechanical Engineer and Alumni from the Harvard Business School.
- He is a first generation entrepreneur having over 3 decades of experience in the Automotive OEM component manufacturing industry.
- Under his leadership, Sandhar which commenced operations as a supplier to Hero Honda for sheet metal components has expanded to 34 facilities all over India including 1 facility in Poland and 1 facility in Mexico.
- He has also been the chairman of the Confederation of Indian Industries, Northern Region, and has been the president of the Auto Component Manufacturers Association in the past.
- Post IPO promotor holds 70% stake in the Company

**Exhibit 10: Sandhar Revenue Contribution**


Source: Company Data

**Exhibit 11: Sandhar Geographic Mix**


Source: Company Data

**Exhibit 12: Sandhar Top customers Contribution**

Top Cutomers	Sales Contribution
Hero	29%
TVS	24%
Honda	8%
Bosch	5%
Royal Enfield	4%
JCB	3%

Source: Company Data

**Exhibit 13: Sandhar Product Mix**

Product categories	Sales Contribution
Locks	22%
Mirror Assembly	12%
Aluminium Components	16%
Wheel Assembly	11%
Sheet Metal Components	13%
Cabins	7%
Plastic Parts	4%
Handle Bar Assembly	4%
Other Products	10%

Source: Company Data

**Sandhar Technologies**

## Investment Rationale

### **Sandhar's 2W business (Locks +Mirrors +Wheels - 55% of sales) is on strong footing**

Sandhar is a leader and dominant supplier of locking systems and rear view mirror in 2W and CV market in India. Currently it has 100% Share of business with Hero Motocorp, TVS Motors and Royal Enfield (54% of 2W industry).

As per the CRISIL research (Company Red herring Prospectus-RHP) 2W locking systems market catering to the OEM demand is around ~Rs7bn in FY17 with blended average realization of Rs300 per lock kit. With arrival of smart locks (lock kit with an immobilizer commands / mechanical lock with magnetic shutter etc) the overall realization are expected to go up in the range of Rs. 900-1,000. CRISIL Research estimates (Company RHP) 2W locking systems market to grow at a CAGR of 22-24% to Rs17.9-19.8 billion by FY2022. Being a largest player in the industry, Sandhar is likely to be default beneficiary of the same. Till recently Sandhar was catering only to Motor-cycle market in India. However it has recently entered to scooter market with TVS Jupiter model.

We anticipate Sandhar's 2W segment to grow in a double digit (12-14%) over the next 2-3 years on account of (a) overall 2W industry growth in India due to increasing youth population and rural recovery b) Sandhar's shift towards introducing premium products (Smart locks, ORVM mirrors etc ) resulting in increase in content per vehicle and c) its recent entry in scooter segment (TVS Jupiter).

### **4W business with Honda Cars looks promising**

Sandhar has been supplying auto components to Honda Cars since last 20 years. It generates ~10% of its sales from them. It provides Locks, Mirror Assembly, Door handles, painted parts to Honda Cars under its HSCI division. Products under the HSCI division are manufactured in its manufacturing plants located at Gurugram and Alwar. Honda Cars reported sales of 170,026 units during FY18 (8% YoY growth with ~5% market share in Indian PV market). As per Honda Cars India management, the company plans to launch three new models in FY19 (Honda Amaze, CR-V and the Civic) and overall six new models within next three year period . The company is also planning to develop new models in the EV and hybrid vehicle space in India. Management plans to increase its market share from ~5% to 10% in India over the next 3-4 years. Over the last 4 years Sandhar's content per vehicle in Honda Cars has grown from ~8K to ~12K led by new product supply. Honda's plan to introduce 6 new models and increasing market share from 5% to 10% in India over the next 3-4 years augurs well for Sandhar in the medium to long term.

### **Operator Cabins & Fabrications Business to Double in the next two years**

Sandhar is one of the largest manufacturers of operator cabins in India (largest player in the excavator cabins market). The Company entered into this business in FY13 with two acquisitions of Mag Engg (Rs 300mn) and cabin business of Arkay Fabsteel (Rs200mn). The company has two facilities in Jaipur (Rajasthan) and Chennai (TN) to execute new order wins. Typically construction equipment and agricultural equipment OEMs outsource operator cabin fabrication and fabrication of components, such as buckets, shovels and arms, to third-party suppliers. Operator cabin fabrication involves assembly of several components, such as steel cabins, wiring harnesses, glass, locks and plastic parts. Operator cabin fabrication is a capital-intensive business and requires technical knowhow to fabricate protective structures. Proximity to construction equipment OEM is considered to be critical. The average realization for an operator cabin is ~Rs70,000 depending on cabin specification. CRISIL Research estimates (Company RHP) the operator cabin and fabrication market to be around ~Rs5.5 billion in FY 2017. Based on infrastructure spending plans, CRISIL Research (Company RHP)

### Sandhar Technologies

expects the construction industry to grow at a 12-13% CAGR over FY18 to FY22 and estimates the operator cabin and fabrications market to grow at a CAGR of 16-18% to ~Rs12 billion by FY22. JCB India is a leader in earthmoving equipment supplier with 75% market share in India. Post sharp business downturn in the past, JCB has reduced its vendor base to 12 vendors. Currently Sandhar gets majority of the business from JCB in this segment. Sandhar is setting up a new facility in Jaipur for supplies of fabrication parts across JCB's products line compared to earlier supply only to JCB's excavators. Sandhar expects its cabin revenues to double to ~Rs4 bn in two years with new facility addition.

### New 5 plants to become operational in CY18

Currently Sandhar has 34 manufacturing facilities (India – 31, Spain – 2, Mexico – 1). Its manufacturing facilities are located in close proximity to its customers' plants in all the key auto clusters in India with dedicated facilities for key customers. Currently it is in process of commissioning 5 more manufacturing facilities in India. The company has incurred ~Rs5bn capex over the last 4 years for the capacity addition. Out of this ~Rs2.5bn capex is yet to start generating sales for the company. The company expects Rs2.5bn capex has a potential to generate ~Rs6bn annual sales going forward

#### Exhibit 9 : Commissioned Facilities

S.No.	Location	Division	Products Manufactured
1	Gurugram	Automotives	Lock assembly, door handles, latches and switch assembly
2	Gurugram	Automotives	Mirror assembly and moulded parts
3	Gurugram	Components	Sheet metal components
4	Gurugram	HSCI	Door handles, lock assembly and side view mirrors
5	Gurugram	Components	Zinc die casting
6	Gurugram	Subsidiary	Tools and dies
7	Haridwar	Automotives	Locking systems, rear-view mirrors systems, door handles, latches
8	Bawal	Components	Aluminium die casting parts
9	Bawal	Components	Plastic moulding parts
10	Nalagarh	Automach	Wheel rims , wheel assemblies, handle bars, clutch and brake panels
11	Alwar	HSCI	Door handles, lock assembly, and side view mirror
12	Indore	Joint Venture	Commercial tooling
13	Pune	Automotives	Mirror assembly, lock assembly, and handle assembly
14	Pune	Components	Television cabinets and air conditioners cabinets
15	Pune	Cabins and fabrications	Cabins, welded assembly for cabins
16	Bengaluru	Components	Zinc die casting and moulding parts
17	Bengaluru	Automotives	Lock assembly, mirror assembly, handle assembly, latches, and switches
18	Bengaluru	Cabins and fabrication	Backhoe loader cabins and cabin loose parts, operator cabins, motor-grader cabin, dozers cabins, cabin for dump trucks including floor plate
19	Bengaluru	Cabins and fabrication	Backhoe loader cabins and cabin loose parts, operator cabins, motor-grader cabin, dozers cabins, cabin for dump trucks including floor plate
20	Bengaluru	Automach	Motor cycle rims, moped rims, scooter rims, clutch assembly, handle bar assembly, wheel assemblies for motor cycles, mopeds and scooters
21	Mysuru	Automach	Wheel rims and wheel assemblies, handle bars, clutch and brake panels, and fender assemblies
22	Chennai	Automach	Wheel rims and wheel assemblies, handle bars, clutch and brake panels
23	Gurugram	Fuel sender	Fuel senders / sensors
24	Oragadam, Chennai	Automach	Assembly of rims
25	Gurugram	Automotives	Relays

Source: Company RHP



**Sandhar Technologies**

S.No.	Location	Division	Products Manufactured
26	Gurugram	After market	Packaging of products for after-market sales
27	Gurugram	Joint Venture	Press parts for application in relays, motors and tools, injection moulded parts for application in sensors, connectors, switches, vehicle relays, lamps, windshield wipers and switches
28	Oragadam, Chennai	Joint Venture	Assembly of AVN panels, and switches
29	Oragadam, Chennai	Joint Venture	High precision press parts, and insert moulded contact plates
30	Hosur	Automach	Wheel rims and wheel assemblies, handle bars, clutch and brake panels, and fender assemblies
31	Jaipur	Cabins and fabrication division	Parts and components for off-highway vehicles

**Facilities to be commissioned**

1	Oragadam, Chennai	Components, and cabins and fabrication	Cabins and cabin loose parts, operator cabins for off-highway vehicles, aluminium die casting components, machining and powder coating of aluminium die casting parts
2	Hosur	Components	Aluminium die casting parts
3	Oragadam, Chennai	Components	Aluminium die casting parts
4	Gurugram	Joint Venture	Fuel filters and fuel modules, starter motors, wipers
5	Gurugram	Joint Venture	Safety helmets and other headgears for two-wheelers

**Facilities outside India**

1	Spain	ST Barcelona	Aluminium spools and spindles
2	Spain	ST Barcelona	Aluminium spools and spindles
3	Mexico	ST Mexico	Aluminium spools and spindles

Source: Company RHP

**New Business Ventures to Drive Growth Post 2020**

Apart from its existing core business, Sandhar has been planning to develop new business segments. It has established following joint ventures and technical collaborations to enter into new product categories. These ventures are likely to become operational and start contributing meaningfully post 2020. These JVs not only add new revenue stream but will further diversify its revenue stream towards 4W segment. The Company plans similarly JV in future which is likely to add further products to its stable.

**Exhibit 10: Sandhar Joint Ventures and Collaborations**

Name of JV	JV Partner	Opportunity
Sandhar Daewha	Manufacturing of fuel pumps & oil filters (for 2W fuel injection systems)	With fuel injection systems being the best solution for BS-6 norms, this will increase its content supplied to 2W industry. The approximate size of fuel pumps likely to be ~Rs15 bn based on current 2w production
Jinyoung Sandhar	Assembly of AVN Panels and Switches	AVN panel opportunity is large -Supplies likely to be Honda, Hyundai & Kia Etc.
Sandhar Whetron	Rear Parking Sensor, Camera	New regulations make Rear Parking Sensor, Camera compulsory for all cars manufactured post July 2019. The company aiming for 15-20% market share, wherein Whetron is a global leader in this product.
Sandhar Amkin Industries	Rider Helmets and other Headgears	Manufacture of Safety Rider Helmets and other headgears for Two-Wheelers

Source: Company RHP

**Sandhar Technologies**
**IPO Proceeds to Reduce Debt and Interest Outflow**

Sandhar has raised ~Rs3.5bn through recent IPO. Out of this IPO proceeds, the Company has utilized Rs2.25bn for the repayment of its existing debt. Due to repayment, overall debt is likely to come down from Rs3.9bn in Sept 2017 to Rs1.7bn. Substantial reduction in debt is likely to reduce interest out-flow in a major way for Sandhar going forward.

**Exhibit 11: Debt and Interest Payment Trend**

	FY17	FY18E	FY19E	FY20E
Net Debt (Rs mn)	3852	781	538	(234)
Interest (Rsmn)	427	465	247	100

Source: Company RHP, Karvy Stock Broking

**Net Margins to Expand from 3.5% to 5.8% - Profit to Double over FY18-20**

Based on following assumptions we believe Sandhar is set to report PAT margin expansion 228bps over FY18-20E from 3.5% to 5.8%.

- Sales CAGR of 18.7% over FY18-20E
- EBITDA Margin Expansion of 70bps over FY18-20E
- Debt repayment of Rs2.25bn in FY18
- Tax rate increasing from 20% to 30% over FY18-20E

The company is expected to report earnings CAGR of 52.2% over FY18-20E resulting in profits doubling over the same period.

**Exhibit 12: Sandhar Key Financial Metrics**

Key Financial Metrics	FY17	FY18E	FY19E	FY20E	bps improvement
Sales	16,269	19,358	23,432	27,267	
EBITDA	1,458	2,070	2,578	3,108	
% of Sales	9.0%	10.70%	11.00%	11.40%	70bps
Depreciation	603	679	742	800	
% of Sales	3.7%	3.5%	3.2%	2.9%	57bps
Other Income	72	51	68	57	
% of Sales	0.4%	0.3%	0.3%	0.2%	
Interest	427	465	247	100	
% of Sales	2.6%	2.4%	1.1%	0.4%	203bps
PBT	500	978	1,658	2,265	
% of Sales	3.1%	5.1%	7.1%	8.3%	
Tax	99	293	497	679	
% of Sales	0.6%	1.5%	2.1%	2.5%	-98bps
Tax Rate	20%	30%	30%	30%	
PAT	401	685	1,160	1,585	
% of Sales	2.5%	3.5%	5.0%	5.8%	228bps

Source: Karvy Stock Broking

## Competitive Strengths

**Long standing and growing relationships with major OEMs** – Sandhar with its management expertise has built long-standing relationships with 79 Indian and global OEM customers, which include some leading companies such as Ashok Leyland, Doosan Bobcat, Escorts, Hero, Honda Cars, Komatsu, Scania, TAFE, Tata Motors, TVS, UM Lohia, and Volvo. The Company generates ~65-70% of its total revenues from top 5 Auto OEMs.

**Exhibit 13: Top 5 Customer Revenue Contribution (in %)**

Name of customer	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Sep-17
Hero	31.67	32.47	30.46	29.86	28.20	29.25
TVS	19.69	17.28	17.30	17.37	20.12	23.63
Honda	4.04	5.39	8.74	10.35	8.02	8.49
Bosch	5.86	6.21	5.85	5.41	5.50	4.83
Royal Enfield(*)	-	-	-	-	-	4.07
Global Automotive Component Supplier(**)	4.33	5.25	4.45	4.87	5.31	-

Source: Company RHP

**Diversified Product Portfolio** – The Company commenced its business by manufacturing sheet metal components and scaled up to 21 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 and other product categories including wheel assemblies, handle bar assemblies, brake panel assemblies, sheet metal components such as fuel filler caps, fuel cock assembly, step pillions, tools, dies, moulds, other aluminium components, crane and tractor parts, plastic and painted parts such as door handles (inner and outer), panels for televisions, and cabinets for air conditioners. The Company works closely with the customers from early of design and product development to engineering and manufacturing which has enabled it to increase the wallet share from the existing OEM customers.

**Production facilities close to the customer plant** – Presently, Sandhar has 32 manufacturing facilities located in key Auto clusters across Gurgaon, Haridwar, Bawal, Bengaluru, Alwar, Chennai, Hosur, Indore, Mysore, Nalagarh & Pune and two manufacturing facilities in Spain and one manufacturing facility in Mexico. The close proximity to customers has helped the company to leverage its relationships with Key OEMs has opened up the opportunity to cross sell multiple products offerings.

**In-house R&D, Design capability and technical collaborations** – Based out of Sandhar Centre for Innovation & Development (R&D) in Gurugram, Sandhar has in-house R&D team of 35 engineers which is into development of new products, designing, prototyping, and product upgrades. SCID was granted two patents related to combined braking systems for hand brakes operated by scooters and motorcycles.



## Risks

**Dependence on Two-Wheeler Market** – The Company generates ~55% of its revenues from two-wheelers (Hero, TVS and Eicher – 54% market share). Any slowdown in this category can impact the volumes for Sandhar.

**Rising Raw-material Costs** – Zinc, sheet metal parts and aluminum accounted for ~41% and purchases from vendors were ~28% of the total raw material costs for FY17. Any abrupt change in the prices of these material may impact Sandhar's margins.

**Demand for Driver Cabins depends on the OHV Market** – The Company generates ~10% of its revenues from manufacturing of OHV cabins. Overall the Construction and Equipment is set to grow due to rising agricultural output and increase in MSP by the Central Government. Any decline in OHV volumes will likely impact the revenues for the company.

## Relative Valuation

**Exhibit 14: Financial Matrix**

Company	Sales (Rs mn)			EBITDA (Rs mn)			EBITDA (%)			PAT (Rs mn)		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sandhar Technologies	19,358	23,432	27,267	2,070	2,578	3,108	10.7	11.0	11.4	685	1,160	1,585
Minda Industries	43,136	54,795	63,745	5,151	6,808	8,068	11.9	12.4	12.7	2,415	3,167	3,654
Minda Corp	31,028	35,357	42,037	2,961	3,762	4,875	9.5	10.6	11.6	1,459	1,997	2,788
Endurance Technologies	63,487	72,201	88,664	8,905	10,386	13,321	14.0	14.4	15.0	3,827	4,846	6,784

Source: Karvy Stock Broking, Bloomberg

**Exhibit 15: Valuation Matrix**

Company	Stock Price (Rs)	Mkt Cap (Rs mn)	PE (x)			EV/EBITDA (x)			ROE (%)		
			FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Sandhar Technologies	372	22,391	32.7	19.3	14.1	11.2	8.9	7.1	14.3	16.8	20.4
Minda Industries	1,134	98,329	40.7	31.1	26.9	19.6	14.8	12.5	21.6	23.1	21.1
Minda Corp	179	37,466	25.1	18.4	13.4	14.3	11.3	8.7	20.0	22.7	26.0
Endurance Technologies	1,352	190,172	49.1	39.3	28.1	21.6	18.5	14.4	20.0	21.3	23.6

Source: Karvy Stock Broking, Bloomberg

## Outlook and Recommendation

### Attractive Valuations – BUY

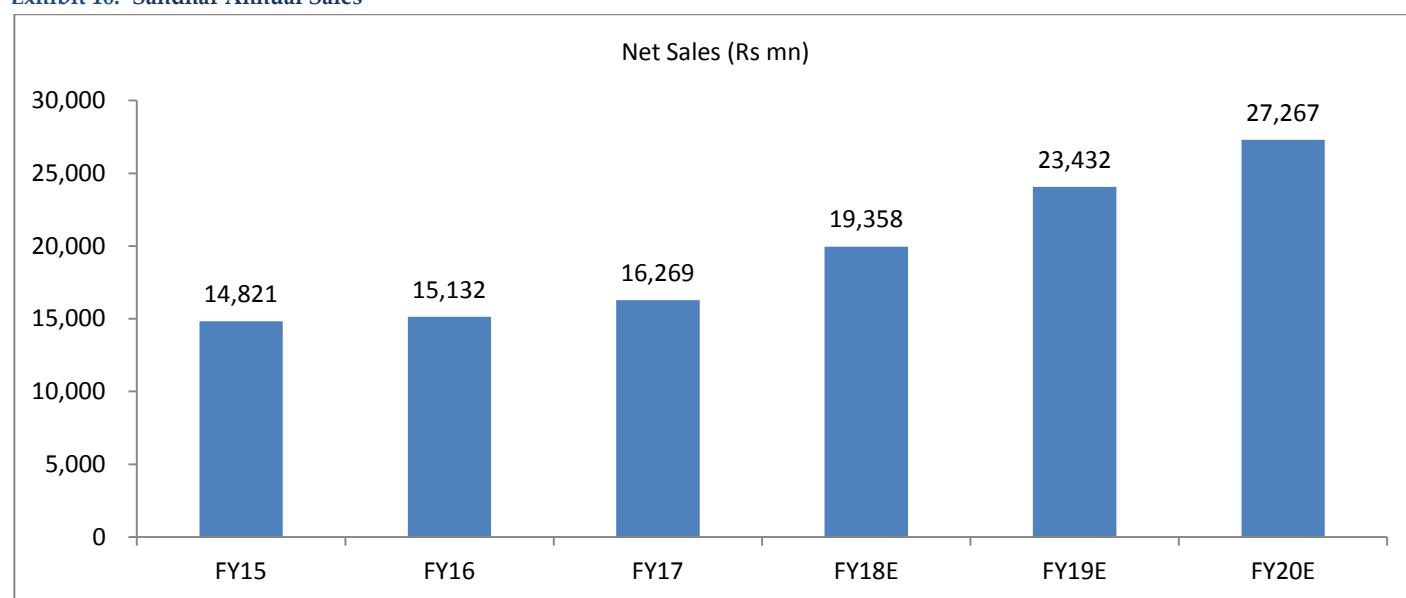
Sandhar is among the top five diversified auto ancillary listed entities in India. It has exhibited steady and consistent operating history. We believe, Sandhar has now entered into a high growth phase wherein its sales and PAT are expected to grow at 18.7% and 52.2% over FY18-20E respectively. Further we believe, JVs will enable sustenance of growth beyond FY20E. ***We initiate coverage on Sandhar with a BUY rating and target price of Rs474 (PER of 18x FY20E earnings - ~20% average discount to peers) on the back of 20% ROE and debt free credentials.***

## Financial Performance

### 18.7% Sales CAGR through FY18-20E

We expect Sandhar to report 18.7% sales CAGR through FY18-20E on account of a) 2W segment (~55% of sales) is expected to grow at ~12% CAGR on account of combination of overall 2W industry growth in India, Sandhar's shift towards introducing premium products (Smart locks, ORVM mirrors etc) resulting in increase in content per vehicle and its recent entry in scooter segment b) Honda Cars (~10% of sales) and operator cabin (~10% of sales) business segments are expected to grow at ~20% and ~45%+ CAGR based on likely performance of Honda Cars and JCB India and C) Component business (~14% of sales) is likely to grow at ~30%+ CAGR as capacity addition in Aluminum Die casting to aid growth.

**Exhibit 16: Sandhar Annual Sales**

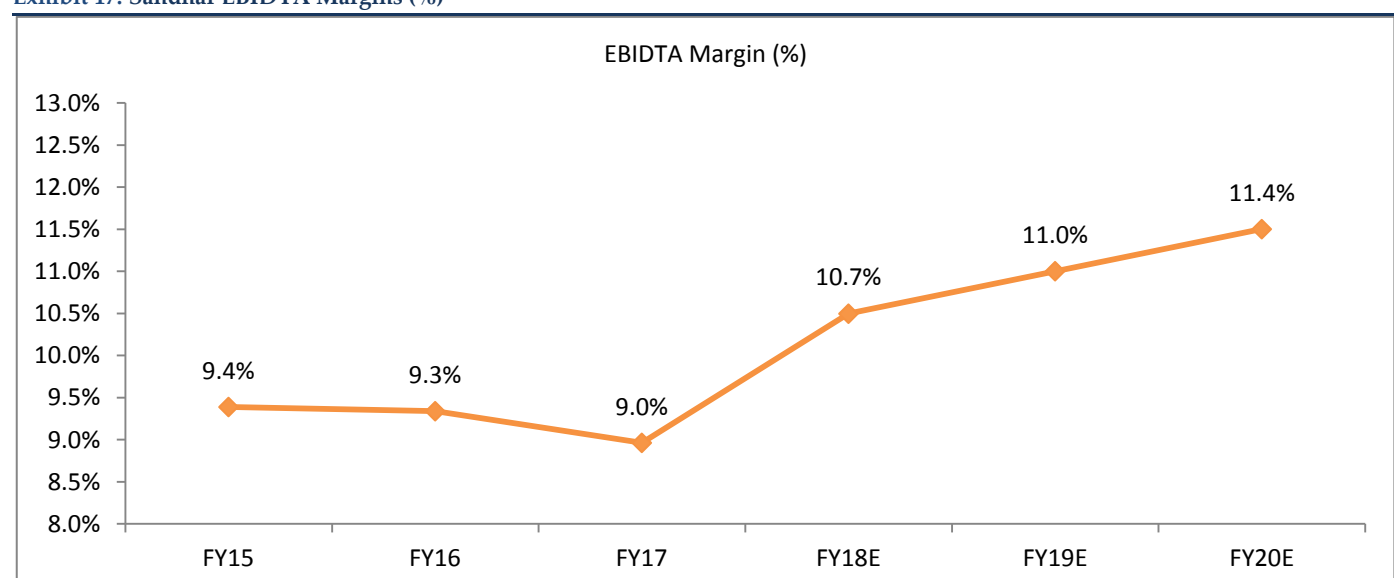


Source: Karvy Stock Broking

### EBITDA Margins to expand by 70bps over FY18-20E

Sandhar is expected to report 10.7% EBITDA margins in FY18. We conservatively estimate 70bps margin expansion over FY18-20E on account of a) operating leverage benefit (~40% increase in revenue base over FY18-20) and b) higher sales contribution from relatively high margin business like locks, mirrors, Honda business and operator cabin segment. The company is expected to achieve EBITDA margins of 11% and 11.4% in FY19 and FY20 respectively.

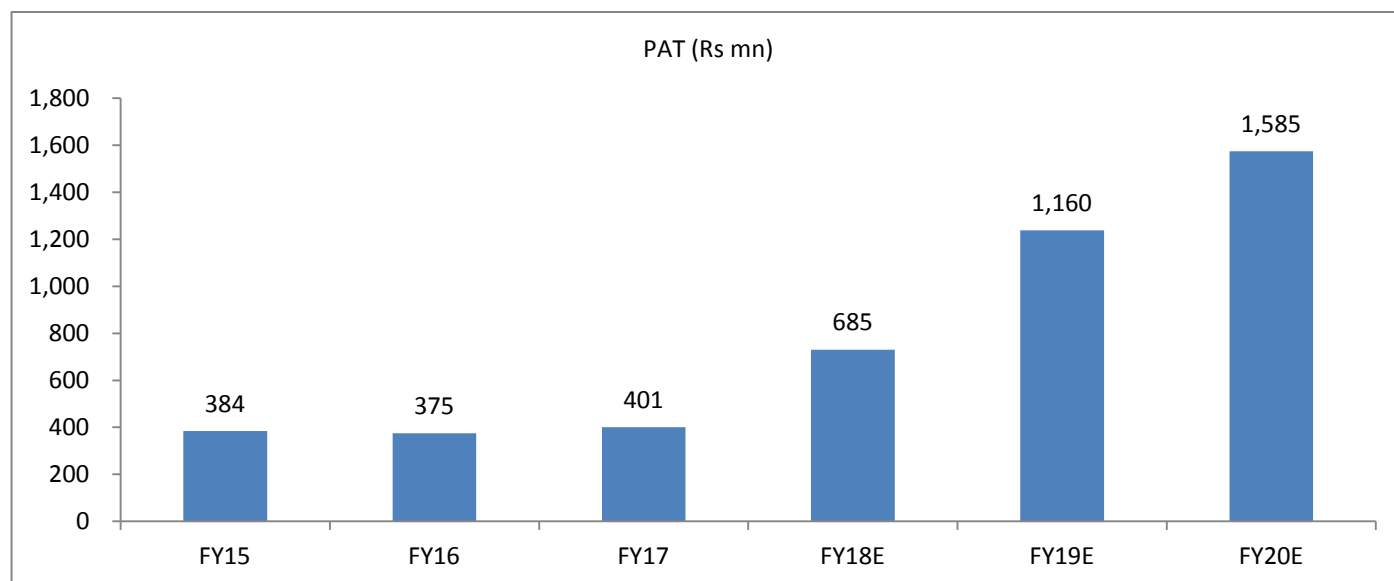
**Exhibit 17: Sandhar EBITDA Margins (%)**



Source: Company, Karvy Stock Broking

**Sandhar Technologies**
**PAT to grow at 52.2% CAGR over FY18-20E**

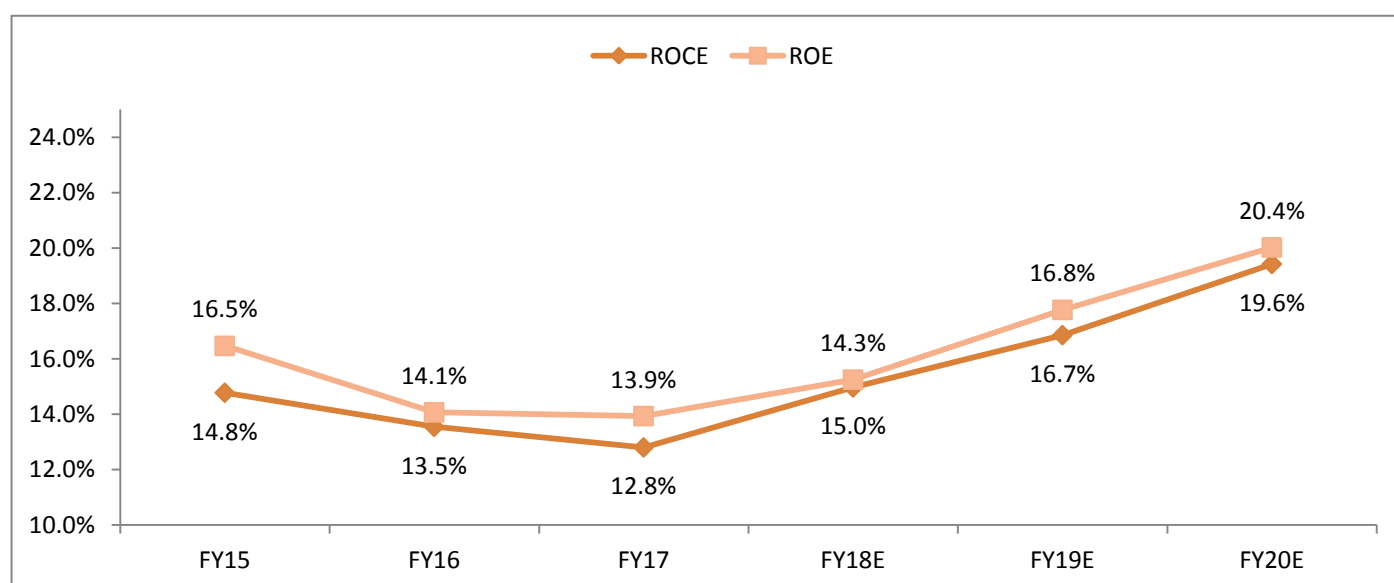
Sandhar is expected to report 52.2% PAT CAGR over FY18-20E on account of 18.7% sales CAGR and 70bps EBITDA margin expansion,. The Company is expected to report PAT of Rs 1.2bn and Rs1.6bn in FY19E and FY20E respectively.

**Exhibit 18: Sandhar PAT Growth**


Source: Company, Karvy Stock Broking

**ROE and ROCE to Expand**

Sandhar is expected to report ROE of 16.8% and 20.4% and ROCE of 16.7% and 19.6% in FY19E and FY20E respectively on account on 18.7% sales and 52.2% PAT CAGR over FY18-20E.

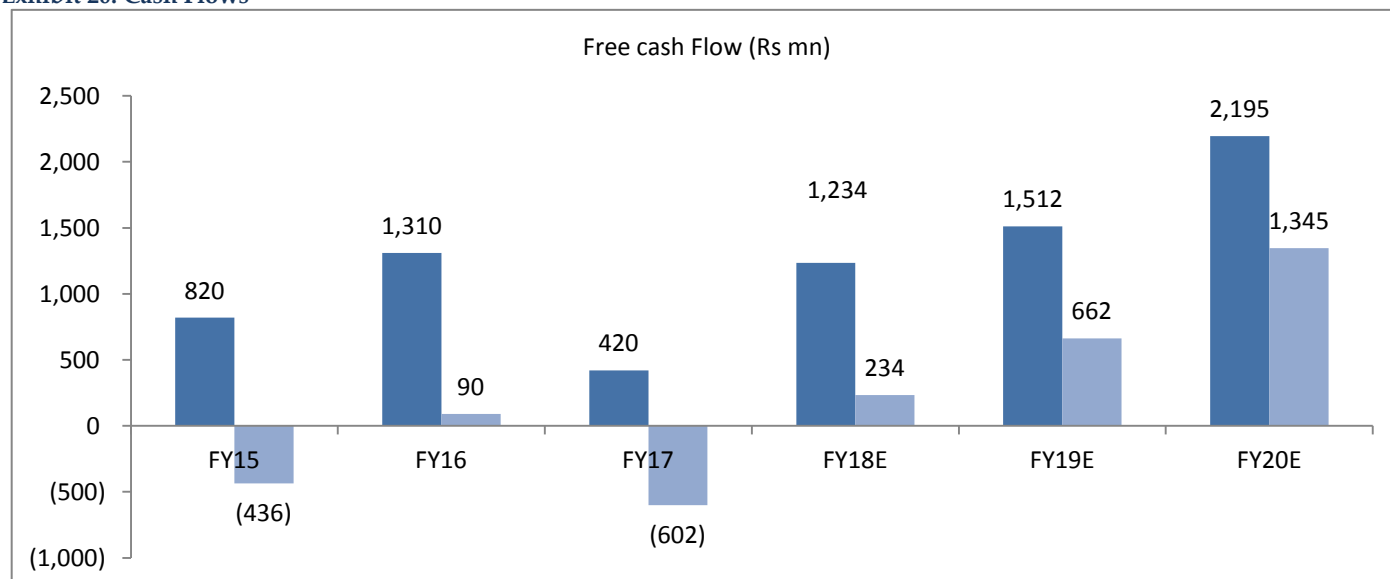
**Exhibit 19: Sandhar ROE and ROCE (%)**


Source: Karvy Stock Broking

## Healthy Cash Generation

We expect the company to generate operating cash of Rs1.8bn and Rs2.3bn and free cash of Rs 952mn and Rs1.39bn in FY19E and FY20E respectively.

**Exhibit 20: Cash Flows**



Source: Company, Karvy Stock Broking

## Financials

**Exhibit 21: Income Statement**

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	14,821	15,132	16,269	19,358	23,432	27,267
YoY (%)	17.2	2.1	7.5	19.0	21.0	16.4
Raw material cost	9,080	9,014	9,512	11,125	13,466	15,670
Employee Cost	1,843	2,018	2,354	2,667	3,156	3,564
Admin Expenses	2,507	2,686	2,945	3,496	4,232	4,925
Total expenses	13,429	13,719	14,811	17,288	20,854	24,158
<b>EBIDTA</b>	<b>1,391</b>	<b>1,413</b>	<b>1,458</b>	<b>2,070</b>	<b>2,578</b>	<b>3,108</b>
EBIDTA Margin (%)	9.4	9.3	9.0	10.7	11.0	11.4
Depreciation	524	552	603	679	742	800
EBIT	868	862	855	1,392	1,836	2,309
Interest	410	424	427	465	247	100
Other income	57	52	72	51	68	57
PBT	514	490	500	978	1,658	2,265
(-) Tax	130	115	99	293	497	679
Tax/ PBT	25.3	23.4	19.8	30.0	30.0	30.0
<b>PAT</b>	<b>384</b>	<b>375</b>	<b>401</b>	<b>685</b>	<b>1,160</b>	<b>1,585</b>
Extraordinary Items	-	37.4	5.1	-	-	-
Reported PAT	384	412	406	685	1160	1585

Source: Company, Karvy Stock Broking

**Sandhar Technologies**
**Exhibit 22: Balance Sheet (Rs Mn)**

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity capital	102	512	512	602	602	602
Reserves	2,490	2,225	2,502	5,933	6,674	7,687
Net worth	2,592	2,736	3,013	6,535	7,276	8,289
Total Loans	3,090	3,192	3,925	1,675	1,175	275
Deferred Tax Liability	103	74	73	73	73	73
<b>Total Liabilities</b>	<b>5,785</b>	<b>6,002</b>	<b>7,012</b>	<b>8,283</b>	<b>8,524</b>	<b>8,637</b>
Gross block	7,163	8,224	9,446	10,446	11,296	12,146
Less: Acc. depreciation	2,401	2,940	3,482	4,161	4,902	5,702
Net block	4,762	5,284	5,964	6,285	6,393	6,444
Work in progress	405	552	292	292	292	292
Investments	30	41	41	41	41	41
Inventories	1,572	1,598	1,671	2,137	2,656	3,091
Debtors	1,891	1,681	2,111	2,256	2,889	3,362
Cash	73	60	73	894	637	509
Loans and advances	393	413	440	524	634	738
Current assets	3,928	3,753	4,295	5,811	6,816	7,700
Current liabilities	3,211	3,534	3,442	3,982	4,820	5,609
Provisions	129	95	138	165	199	232
Net current assets	588	124	714	1,664	1,797	1,860
<b>Total Assets</b>	<b>5,785</b>	<b>6,002</b>	<b>7,012</b>	<b>8,283</b>	<b>8,524</b>	<b>8,637</b>

Source: Company, Karvy Stock Broking

**Exhibit 23: Cash Flow**

Y/E Mar (Rs Mn)	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net profit	384	337	396	685	1,160	1,585
Depreciation	524	552	603	679	742	800
Deferred tax	(22)	(31)	-	-	-	-
Change in W/C	(66)	452	(578)	(129)	(390)	(190)
Operating cash flow	820	1,310	420	1,234	1,512	2,195
Capex	(1,256)	(1,220)	(1,022)	(1,000)	(850)	(850)
Investments	-	(11)	-	-	-	-
Investing cash flow	(1,256)	(1,231)	(1,022)	(1,000)	(850)	(850)
<b>Free Cash Flow</b>	<b>(436)</b>	<b>90</b>	<b>(602)</b>	<b>234</b>	<b>662</b>	<b>1,345</b>
Dividend	(111)	(217)	(95)	(164)	(419)	(572)
Equity	248	24	(24)	3,000	-	-
Debt	345	102	733	(2,250)	(500)	(900)
Financing cash flow	482	(92)	615	586	(919)	(1,472)
Net change in cash	46	(12)	13	821	(257)	(127)
Opening cash	27	73	60	73	894	637
Closing cash	73	60	73	894	637	509

Source: Company, Karvy Stock Broking



**Sandhar Technologies**
**Exhibit 24: Key Ratios**

<b>Valuation Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
EPS	7.5	7.3	7.8	11.4	19.3	26.3
Book value	51	53	59	109	121	138
P/E (x)	NA	NA	NA	32.7	19.3	14.1
EV/EBDITA (x)	NA	NA	NA	11.2	8.9	7.1
P/B (x)	NA	NA	NA	3.4	3.1	2.7
EV/Sales	NA	NA	NA	1.2	1.0	0.8
<b>Performance Ratios</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18E</b>	<b>FY19E</b>	<b>FY20E</b>
ROCE	14.8	13.5	12.8	15.0	16.7	19.6
ROE	16.5	14.1	13.9	14.3	16.8	20.4
Free cash/Share	-21.3	0.9	-5.9	1.9	5.5	11.2
Avg Net WC Days	12	7	8	13	15	17
Net W/C (% of sales)	3.5	0.4	3.9	4.0	5.0	5.0

Source: Company, Karvy Stock Broking

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

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## Disclosures Appendix

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