September 22, 2017

Sandhar Technologies Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund Based Facilities	20.0	[ICRA]A+ (stable) reaffirmed
Non-fund Based Facilities	30.0	[ICRA]A1 reaffirmed
Fund Based and Non-fund Based Facilities	25.0	[ICRA]A+ (stable)/[ICRA]A1 reaffirmed
Unallocated Limits	5.0	[ICRA]A+ (stable) reaffirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed a long-term rating of [ICRA]A+ (pronounced as ICRA A plus) for the bank facilities of Sandhar Technologies Limited (STL)[1]. The outlook on the long-term rating is Stable. ICRA has also reaffirmed a short-term rating of [ICRA]A1 (pronounced as ICRA A one) for the bank facilities of the company. The total rated amount is Rs. 80.0 crore[2].

Rationale

The reaffirmation of the ratings takes into account the strong operational profile of STL, with the company having an established market position for various products with leading two-wheeler and four-wheeler OEMs in the domestic market. STL has a highly diversified product profile with presence across multiple product segments viz. lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, handle bar assemblies, sheet metal components, door handles, plastic injection moulding, aluminium and zinc die casting components etc. The company's strong product engineering and development capability, coupled with technological collaboration agreements with global players for certain products, has aided maintenance of healthy share of business for supplies to various OEMs.

While the company has a presence with various OEMs, it continues to remain exposed to segment and client concentration risk, with its two largest customers – Hero Motocorp Limited (HMCL) and TVS Motor Company Limited (TVS) accounting for ~48% of the company's revenues (at a consolidated level). The risk is, however, partially mitigated by the company's strong share of business across product segments and the leading market position of the OEMs in the two-wheeler industry. A muted demand growth in the company's primary end user segment – motorcycles, over the past few years had curtailed the revenue growth from the company's mainstay businesses (lock set assemblies and mirror assemblies). During this period, a relatively healthy growth in revenues from cabin fabrication business, however, supported revenue growth to an extent. The company continues to be focussed on further diversifying its product profile, through various ongoing product development initiatives and collaborations; these initiatives coupled with an expectation of an improved demand outlook for its key end user segments, is expected to help the company record a moderate to healthy growth in revenues over the medium term.

Over the past 3-4 years, STL has made debt-funded investments in new businesses as well as overseas subsidiary, returns from which are only expected over the medium term. This has led to a moderation in the company's debt coverage indicators, which have remained muted. An expectation of improved profitability of new businesses as a result of ramp up in scale of operations of businesses such as cabin fabrication, aluminium die casting and plastic injection moulding, is likely to support an improvement in

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.*

[2] *100 lakh = 1 crore = 10 million*

STL's operating profitability and coverage indicators over the short to medium term. The company's ability to scale up its various new businesses in a profitable manner, while maintaining healthy business with its existing customers in the lock sets and mirror assemblies segment, would remain a key rating sensitivity.

STL continues to have moderate debt repayment obligations over the next few years. This coupled with the company's capex plans towards setting up facilities to expand its scale of operations, is likely to result in a continued dependence of the company on external sources of funding. ICRA notes that the company has plans to come out with an IPO over the short to medium term to help reduce its dependence on external borrowings and fund its future investments plans. ICRA would continue to monitor any development in this regard and evaluate its impact on the company's financial risk profile.

Key rating drivers

Credit strengths

- **Established business relationships and healthy share of business with leading domestic two-wheeler and four- wheeler manufacturers –** Sandhar Technologies Limited is a leading auto component manufacturer, with established relationships with OEMs across product segments – two-wheelers, four-wheelers, construction equipments. It has been able to maintain its sole supplier status for lock set assemblies and mirror assemblies for majority models of OEMs such as HMCL, TVS and Honda Cars India Limited (HCIL), benefitting from its strong product engineering and development capability.

- **Diversified product profile with presence across various segments –**STL has a highly diversified product profile with presence across various segments including lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, sheet metal components, handle bar assemblies, door handles, aluminum die casting etc. Lock set assemblies constitute the highest percentage of revenues (~27% of the standalone revenues in FY2017) with the company being the major supplier of lock assemblies to OEMs such as HMCL, TVS and Eicher Motors Limited (EML – Royal Enfield business). The diversified product profile of the company insulates it from any downturn in demand for a particular product, thereby providing adequate revenue visibility over the medium term.

- **Technical collaboration agreement with Honda Locks Manufacturing Company provides technological support; various other technological agreements to help further diversify product profile –** Sandhar has entered into technical collaboration agreements with various players to gain access to technology. It started by entering into a technical collaboration with Honda Locks Manufacturing Company (Honda Locks) in 1987 for two wheeler lock kits. Over the years, the company has signed additional agreements with Honda Locks for four wheelers, which has helped the company gain additional business from HCIL. In addition to its agreement with Honda Locks, the company has over the past 2-3 years also entered into several other technological collaboration agreements for various products with a view of further diversifying its product profile - Jinyoung Electro-Mechanics Company (electronic relays), Lyssen Enterprises (Instrument clusters, case gauges and senders), Whetron Electronics (Suzhou) Co. Ltd. (rear parking sensors, cameras, anti- theft systems etc). Additionally, the company has also entered into various joint ventures with a view of enhancing its product profile. These include JVs with Jinyoung Electro-Mechanics Company (AVN panels, sub-assemblies Switches for passenger Vehicles), Daewha Fuel Pump Ind. Ltd. (Oil filters), Autofit Group associate (helmets) and Plato Co. Ltd (safety & security solutions such as smart keys for motorcycles).

Credit weaknesses

- **High client and segment concentration risk with around ~50% of revenues coming from top two customers in FY2017 –** Although the company supplies to various automotive segments, it remains dependent to an extent on the two-wheeler segment, which constituted ~55% of the company's total revenues in FY2017. Its two largest customers – HMCL and TVS account for ~48% of the company's revenues (at a consolidated level). The segment and client concentration risk is however partially mitigated by the company's strong share of business for various product supplies and the leading market position of the OEMs in the two-wheeler industry. Additionally, the company's focus on growing its other product segment is likely to help moderate client concentration levels over the medium term.

- **Return indicators have remained moderate, partially on account of significant debt funded acquisitions for expanding the business mix and investments towards various product lines** – The operating profit margins of the company declined marginally in FY2017, with the various new product businesses (aluminium die casting, plastic injection moulding, electronic relays etc) started by the company recording operational losses. Its return indicators have remained suppressed over the past few years, on account of the capex incurred towards enhancing its capacity as well as investments in new products segments, the returns from which are only likely over the medium term. An expectation of improved profitability of new businesses as a result of ramp up in scale of operations of businesses, aluminium die casting in particular, is however expected to help the company report improved profitability going forward.

- **Moderate financial risk profile, characterised by moderate debt coverage indicators and sizeable debt repayments –** As a result of significant capex incurred over the past 3-4 years and acquisition of cabin fabrication business of two entities, the total borrowings of the company remain high at levels of 498.6 crore[3] as on March 31, 2017 (at a consolidated level) and it has sizeable debt repayments over the next few years. While the cash accruals are likely to be more than sufficient to help the company meet its debt repayment obligations, the company also has moderate capex plans towards setting up facilities to expand its scale of operations, which is likely to result in a continued dependence of the company on external sources of funding.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below:

Links to applicable criteria:
Corporate Credit Rating Methodology
Rating Methodology for Auto Component Manufacturers

About the company:
Incorporated in 1987, Sandhar Technologies Limited is a highly diversified auto component manufacturer, with a presence across product segments such as lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, sheet metal components, handle bar assemblies, plastic parts, aluminium die casting etc. The company caters to multiple automotive segment including two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles and tractors. It has a wholly owned subsidiary, Sandhar Technologies Barcelona (ST Barcelona), which supplies aluminium spools to seatbelt manufacturers across Europe and USA. STL has several manufacturing facilities in India, two in Spain and one each in Poland and Mexico.

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[3] *The total debt includes bill discounting contingent liability of Rs. 36.9 crore on the company's books as of March 31, 2017; excluding the same, the total borrowings of the company at a consolidated level would be Rs. 461.6 crore*

The promoter, Mr. Jayant Dawar and his family, hold an 82.53% stake in STL while the remaining 17.47% is owned by the Private Equity (PE) firm GTI Capital Beta Private Limited. The PE firm took over the 10.75% stake of Actis Group (the previous PE investor in STL) in FY2014. Later in FY2015, it infused fresh equity of Rs. 30.0 crore, increasing its stake to 17.47%.

Key Financial Indicators (Consolidated)

Indicator	FY2016	FY2017
Operating Income (Rs. crore)	1,513.2	1,626.9
PAT (Rs. crore)	36.7	36.8
OBDITA/OI (%)	9.6%	9.0%
ROCE (%)	14.4%	12.6%
Total Debt/ TNW (times)	1.6	1.6
Total Debt/ OPBDIT (times)	2.9	3.4
Interest coverage (times)	3.4	3.4
NWC/ OI (%)	9.3%	11.6%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	**Amount Rated (Rs. crore)**	**Date & Rating**	**Date & Rating in FY2017**	**Date & Rating in FY2016**	**Date & Rating in FY2015**
				September 2017	**June 2016**	**April 2015**	**-**
1	Fund Based Facilities	Long Term	20.0	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	-
2	Non-fund Based Facilities	Short Term	30.0	[ICRA]A1	[ICRA]A1	[ICRA]A1	-
3	Fund Based and Non-fund Based Facilities	Long Term/Short Term	25.0	[ICRA]A+ (stable)/ [ICRA]A1	[ICRA]A+ (stable)/ [ICRA]A1	[ICRA]A+ (stable)/ [ICRA]A1	-
4	Unallocated Limits	Long Term	5.0	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Fund Based Facilities	-	-	-	20.0	[ICRA]A+ (stable)
Non-fund Based Facilities	-	-	-	30.0	[ICRA]A1
Fund Based and Non-fund Based Facilities	-	-	-	25.0	[ICRA]A+ (stable)/ [ICRA]A1
Unallocated Limits	-	-	-	5.0	[ICRA]A+ (stable)

Source: Sandhar Technologies Limited

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About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
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