

Sandhar Technologies Limited

October 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	50.0	50.0	[ICRA]AA-(stable) outstanding
Fund-based/Non-fund Based – Working Capital Facilities	25.0	25.0	[ICRA]AA-(stable)/[ICRA]A1+ outstanding
Unallocated Limits	5.0	5.0	[ICRA]AA-(stable) outstanding
Total	80.0	80.0	
Commercial Paper	0.0	40.0	[ICRA]A1+ assigned

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a rating of [ICRA]A1+ to the Rs. 40.0 crore¹ commercial paper programme of Sandhar Technologies Limited (STL)². ICRA also a long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) outstanding for the Rs. 80.0 crore bank facilities of the company.

Rationale

The rating assigned takes into account the strong financial risk profile of STL, characterised by a conservative capital structure, comfortable liquidity profile and strong debt coverage indicators. The company had utilised a large portion of the proceeds of the IPO along with its cash accruals to prepay a major portion of the long-term debt obligations on its books (~Rs. 254.0 crore) in April 2018, which led to a significant improvement in its capital structure (STL is expected to report a gearing of ~0.3 times as of March 31, 2019). The ratings assigned also factor in the healthy operational performance of the company over the past 18 months, driven by strong growth in the end-user industry. Strong revenue growth, coupled with various cost efficiency measures undertaken by the company aided the expansion in its operating profit margins (improvement of ~180 bps) in FY2018. The reduction in debt, coupled with an expectation of continuation of stable operating performance is likely to help STL to report healthy debt coverage indicators with an expected total debt/OPBDITA of ~1.0 times in FY2019.

The ratings continue to favourably factor the company's established market position for various products with leading two-wheeler and four-wheeler original equipment manufacturers (OEM) in the domestic market. STL has a highly diversified product profile across multiple product segments, viz lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, sheet metal components, door handles, handle bar assemblies, among others. Its strong product engineering and development capability, coupled with technological collaboration agreements with global players for certain products, has aided the maintenance of a healthy share of business for various OEMs over the years.

While the company remains exposed to segment and client concentration risk, with its two largest customers, Hero Motocorp Limited (HMCL) and TVS Motor Company Limited (TVS), accounting for ~50% of its revenues (at a consolidated level), the risk is, partially mitigated by STL's strong share of business across product segments and the leading market

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

position of the OEMs in the two-wheeler industry. It 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 a favourable demand outlook for its key end-user segments supports ICRA's expectation of healthy revenue growth prospects for STL.

Over the past three to four years, STL had made debt-funded investments in new businesses as well as its overseas subsidiary, the returns from which are only expected over the medium term. This has led to a moderation in the company's return indicators. An improvement in its operating performance over the recent past has however supported an uptick in STL's return indicators to an extent. The likely improvement in its profitability of the new businesses as operations ramp up further would strengthen its profitability metrics.

ICRA notes that the proceeds from the rated commercial paper programme are intended to be utilised for funding the working capital requirements, as per the objects of the issue. Any deviation from the above, which has the effect of exerting pressure on the asset-liability position of the company, would be a rating sensitivity.

Outlook: Stable

The Stable outlook reflects an expectation that STL would record healthy revenue growth over the medium term following a further ramp-up in revenues in the aluminium die casting and cabin fabrication businesses, coupled with continued business from its existing customers in the lock sets and mirror assembly segments. An improved scale of operations combined with an improved financial risk profile is also likely to support an expansion in the company's operating margins and help record improved debt coverage indicators. The outlook may be revised to Positive if substantial growth in revenue and profitability, especially for various new businesses, leads to a significant improvement in STL's return indicators. The outlook may be revised to Stable if the ramp up in the scale of operations of various new businesses is slower than expected, leading to deterioration in the company's return indicators. Furthermore, an adverse impact of any acquisitions undertaken by the company with a view of further enhancing its product profile, on STL's financial risk profile, could also trigger a revision in outlook.

Key rating drivers

Credit strengths

Diversified product profile; established relationship and healthy share of business with several OEMs – STL is a leading auto-component manufacturer, with established relationships with OEMs across product segments such as two-wheelers, four-wheelers, and construction equipment. It has a highly diversified product profile with 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. In addition to the various products manufactured at a standalone level, STL also has presence in manufacturing products such as high precision press parts, audio video navigation panels and switches, helmets etc through its joint ventures, even though the scale of operations for these products segments remains relatively lower. The diversified product profile insulates STL from any downturn in demand for a particular product segment. Additionally, the expanding product portfolio gives the company an opportunity to capture a larger portion of its customers' requirements going forward, thereby, providing adequate revenue visibility over the medium term.

Technical collaboration agreements aid product development capabilities – STL has entered into technical collaboration agreements with select international auto-component companies for its various product lines. After initially collaborating with Honda Locks Manufacturing Company (Honda Locks) in 1987 for lock kits, STL has also entered into several other technological collaboration agreements for various products (electronic relays, instrument clusters, rear parking sensors

etc), with a view of further diversifying its product profile. These technological agreements have added new product lines to STL's product basket and are likely to continue to aid its product development capabilities going forward.

Infusion of funds post a successful IPO has strengthened its financial risk profile – STL, over the years, had invested significantly towards enhancing its product profile (through acquisitions) and manufacturing capabilities (~Rs. 570 crore over the past five fiscals). As a result, the total debt on the company's books remained high at ~Rs. 484.4 crore as on March 31, 2018. In March 2018, STL came out with an IPO, which led to a fund infusion of ~Rs. 279.9 crore through the issue of fresh shares. Consequently, the company utilised ~Rs. 254.0 crore of the IPO proceeds to repay the entire long-term debt obligations on the standalone entity's books. The repayment of debt obligations has led to a significant improvement in the capital structure, with the company likely to report gearing of ~0.3 times as of March 31, 2019 in the absence of any large capex/investment plans for the fiscal. The reduction in debt, coupled with an expectation of improved operating performance also supports our expectation of further improvement in its credit metrics, with an expected total debt/OPBDITA of ~1.0 times in FY2019.

Credit challenges

Moderate client and segment concentration risk – While STL has an established presence across both the four-wheelers and the construction equipment segment, the two-wheeler segment constitutes a major part of the revenues (~59% in Q1 FY2019). The company is also exposed to moderate customer concentration risk with its two major customers, HMCL and TVS, contributing ~50% of its revenues (at a consolidated level). The moderate client and segment customer concentration risk is mitigated to an extent by the strong share of business enjoyed by STL with the OEMs. It also remains focussed on reducing its segment and client concentration risk, through business gains from new customers.

Moderate return indicators due to debt-funded acquisitions for expanding the business mix and investments towards various new product lines – STL's RoCE has remained at suppressed levels (RoCE of 13-15% over the period from FY2016 to FY2017), on account of the capex incurred towards enhancing its capacity and investments in new verticals, such as aluminium die cast components, the returns from which are only likely over the medium term. While an improvement in its operating profitability in FY2018 helped improve the RoCE to an extent, the same continues to remain at moderate levels; a scale up in operations of the new businesses is likely to lead to a gradual improvement in the company's return indicators over the medium term.

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, STL is a highly diversified auto-component manufacturer, present 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 segments, 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 seat-belt manufacturers across Europe and North America. STL has several manufacturing facilities in India, two in Spain and one each in Poland and Mexico.

Sandhar Technologies came out with an IPO in March 2018, which helped it raise ~Rs. 279.9 crore of funds through issue of fresh shares; additionally, its PE investor – GTI Capital plans sold 64 lakh shares of the company through a secondary sale (OFS). Post the IPO, the promoter, Mr. Jayant Dawar and his family, holds a stake of 70.14% in the company.

Key financial indicators– Consolidated

	FY2017 (Audited)	FY2018 (Audited)
Operating Income (Rs. crore)	1,611.4	1,946.4
PAT (Rs. crore)	41.6	65.6
OPBDIT/OI (%)	9.2%	11.0%
RoCE (%)	13.7%	15.7%
Total Debt/TNW (times)	1.5	0.8
Total Debt/OPBDIT (times)	3.1	2.3
Interest Coverage (times)	3.5	4.9
NWC/OI (%)	8.9%	6.5%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)						Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	May 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016 April 2015
1 Fund-based-Working Capital Facilities	Long Term	50.0	-	[ICRA]AA-(stable)	[ICRA]AA-(stable)	[ICRA]A+(stable)	[ICRA]A+(stable)	[ICRA]A+(stable)
2 Fund-based/Non-fund based-Working Capital Facilities	Long Term/Short Term	25.0	-	[ICRA]AA-(stable)/[ICRA]A1+	[ICRA]AA-(stable)/[ICRA]A1+	[ICRA]A+(stable)/[ICRA]A1	[ICRA]A+(stable)/[ICRA]A1	[ICRA]A+(stable)/[ICRA]A1
3 Unallocated Limits	Long Term	5.0	-	[ICRA]AA-(stable)	[ICRA]AA-(stable)	[ICRA]A+(stable)	[ICRA]A+(stable)	[ICRA]A+(stable)
4 Non-fund based-Working Capital Facilities	Short Term	0.0	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1
5 Commercial Paper	Short Term	40.0	0.0	[ICRA]A1+	-	-	-	-

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based- Working Capital Facilities	-	-	-	50.0	[ICRA]AA- (stable)
NA	Fund-based/ Non-fund based- Working Capital Facilities	-	-	-	25.0	[ICRA]AA- (stable)/[ICRA]A1+
NA	Unallocated Limits	-	-	-	5.0	[ICRA]AA- (stable)
NA	Commercial Paper	Yet to be placed	-	-	40.0	[ICRA]A1+

Source: Sandhar Technologies Limited

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Anupama Arora

+91 1244545303

anupama@icraindia.com

Rohan Kanwar Gupta

+91 1244545808

rohan.kanwar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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