September 16, 2019

Sandhar Technologies Limited: Rating reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	50.00	50.00	[ICRA]AA- (Negative) reaffirmed; outlook revised to Negative from Stable
Fund-based/Non-fund Based – Working Capital Facilities	25.00	25.00	[ICRA]AA- (Stable)/ [ICRA]A1+ reaffirmed; outlook revised to Negative from Stable
Unallocated Limits	5.00	5.00	[ICRA]AA- (Stable) reaffirmed; outlook revised to Negative from Stable
Total	**80.00**	**80.00**	
Commercial Paper	40.00	40.00	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-1*

Rationale

The outlook revision factors in the weak demand prospects for the automotive sector which could result in a moderation in operating performance of Sandhar Technologies Limited (STL) over the near-term. During Q1 FY2020, the volume decline across the automotive industry had resulted in a degrowth in STL's operating income (OI) by 3.3% YoY during the same period. Even as the company was able to curtail its sales degrowth relative to the end user segments of two-wheeler (2W), passenger vehicle (PV) and commercial vehicle (CV) – on account of incremental share of business as well as higher content per vehicle during Q1FY2020, a continued weakness in automotive demand over the near term could lead to a moderation in the company's profitability and debt protection metrics. However, the outlook on the company's long-term rating may be revised to Stable if there is some improvement in the industry outlook resulting from improved consumer sentiments or some other industry specific developments.

The ratings continue to take into account the company's established market position for various products with leading 2W and four-wheeler (4W) 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. With the management targeting higher content per vehicle through new products and increasing its customer base to address the moderation in volumes, such a strategy may allow the company limit decline in revenues and profitability to some extent.

ICRA also favourably factors in the healthy financial risk profile of the company following repayment of long-term borrowings in April 2018 (post an initial public offering (IPO) in March 2018). While the moderation in the sales volume for automotive industry has resulted in higher working capital requirements on account of longer collection period and thus high short-term borrowings for the company, the long-term bank borrowings continue to remain low (Rs. 15.4 crore as on March 31, 2019), thereby indicating low repayment obligations over the next 3-4 years. Notwithstanding any major debt-funded capex plans or additional investment plans into joint ventures (JVs), the company is likely to continue reporting healthy capitalisation and coverage indicators over the medium term.

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 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. Moreover, 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 and continues to constraint the ratings.

The outlook on the company's long-term rating may be revised to Stable if the industry outlook improves over the near-to-medium term.

Key rating drivers and their description

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 2Ws, PVs, CVs 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 JVs, even though the scale of operations for these products segments remains relatively lower. Additionally, the expanding product portfolio gives the company an opportunity to capture a larger wallet share from its customers' 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.

Comfortable financial risk profile – STL's financial risk profile has improved substantially post repayment of most of the long-term debt in April 2018 by using the proceeds from IPO. As on March 31, 2019, the company had a gearing of 0.4 time, TOL/TNW of 1.0 time and interest coverage of 10.4 times. While the moderation in the industry has led to increased blockage of short-term borrowings for working capital requirements, the long-term bank borrowings continue to remain low (Rs. 15.4 crore as on March 31, 2019), thereby indicating low repayment obligations over the next 3-4 years.

Credit challenges

Moderate client and segment concentration risk – While STL has an established presence across both the 4W and the construction equipment segment, the 2W segment constitutes a major part of the revenues (~57% in FY2019). The company is also exposed to moderate customer concentration risk with its two major customers, HMCL and TVS, contributing ~50% of its revenues in FY2019 (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 had remained at suppressed levels 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 and a healthy ramp-up of revenues over the past two fiscals (FY2018-FY2019) has helped improve the RoCE to an extent (17.5% in FY2019); a moderation in volumes could lead to deterioration in RoCE in the near term.

Liquidity position: Adequate

STL's liquidity is **adequate** with healthy cash flow from operations of Rs. 104.3 crore in FY2019, cash and liquid investments of Rs. 12.3 crore as on March 31, 2019, moderate working capital utilisation (51% as a percentage of sanctioned limits and 68% as a percentage of drawing power during the 12 months period ending May 2019), low repayments obligations (less than Rs. 8 crore per annum over the next 4 years) and no major capex plans

Overall, ICRA expects STL to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses. In addition, the company has healthy financial flexibility to be able to raise debt from financial institutions.

Rating sensitivities

Positive triggers – A rating upgrade could be triggered if the company is able to make its various investments in JVs profitable on a sustained basis which would lead to improved return indicators. A RoCE exceeding 20% on a sustained basis could lead to an upgrade.

Negative triggers – A Debt/OPBDITA greater than 1.5 times on a sustained basis could lead to a downward revision of ratings. Further, continued losses from JVs along with incremental investments could suppress the RoCE and thus, could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of STL. As on March 31, 2019, the company had three subsidiaries and nine JVs, which are enlisted in Annexure-2.

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 2Ws, PVs, CVs, 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.

STL came out with an IPO in March 2018, which helped it raise ~Rs. 300 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 (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	1,946.4	2,335.8
PAT (Rs. crore)	70.9	102.7
OPBDIT/OI (%)	10.5%	10.7%
RoCE (%)	16.3%	17.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.0
Total Debt/OPBDIT (times)	2.4	1.1
Interest Coverage (times)	4.7	10.4
DSCR	1.6	0.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2020)</th><th colspan="4">Rating History for the Past 3 Years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated</th><th rowspan="2">Amount Outstanding</th><th>Rating</th><th colspan="2">FY2019</th><th>FY2018</th><th>FY2017</th></tr>
<tr><th>16-Sep-2019</th><th>8-Oct-2018</th><th>17-May-2018</th><th>22-Sep-2017</th><th>27-Jun-2016</th></tr>
<tr><td>1</td><td>Fund-based – Working Capital Facilities</td><td>Long Term</td><td>50.00</td><td>-</td><td>[ICRA]AA-(Negative)</td><td>[ICRA]AA-(Stable)</td><td>[ICRA]AA-(Stable)</td><td>[ICRA]A+(Stable)</td><td>[ICRA]A+(Stable)</td></tr>
<tr><td>2</td><td>Fund-based/Non-fund Based – Working Capital Facilities</td><td>Long Term/ Short Term</td><td>25.00</td><td>-</td><td>[ICRA]AA-(Negative)/ [ICRA]A1+</td><td>[ICRA]AA-(Stable)/ [ICRA]A1+</td><td>[ICRA]AA-(Stable)/ [ICRA]A1+</td><td>[ICRA]A+(Stable)/ [ICRA]A1</td><td>[ICRA]A+(Stable)/ [ICRA]A1</td></tr>
<tr><td>3</td><td>Unallocated Limits</td><td>Long Term</td><td>5.00</td><td>-</td><td>[ICRA]AA-(Negative)</td><td>[ICRA]AA-(Stable)</td><td>[ICRA]AA-(Stable)</td><td>[ICRA]A+(Stable)</td><td>[ICRA]A+(Stable)</td></tr>
<tr><td>4</td><td>Non-fund based –Working Capital Facilities</td><td>Short Term</td><td>-</td><td>-</td><td>-</td><td>-</td><td>-</td><td>[ICRA]A1</td><td>[ICRA]A1</td></tr>
<tr><td>5</td><td>Commercial Paper</td><td>Short Term</td><td>40.00</td><td>0.0</td><td>[ICRA]A1+</td><td>[ICRA]A1+</td><td>-</td><td>-</td><td>-</td></tr>
</table>

Amount in Rs. crore

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 click here

Annexure-1: Instrument details

ISI	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based – Working Capital Facilities	NA	NA	NA	50.00	[ICRA]AA- (Negative)
NA	Fund-based/Non-fund Based – Working Capital Facilities	NA	NA	NA	25.00	[ICRA]AA- (Negative)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	5.00	[ICRA]AA- (Negative)
-	Commercial Paper	Yet to be placed			40.00	[ICRA]A1+

Source: STL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sandhar Tooling Pvt. Ltd.	79.92%	Full Consolidation
Sandhar Strategic Systems Pvt. Ltd.	99.99%	Full Consolidation
Sandhar Technologies Barcelona S.L.	100.00%	Full Consolidation
Sandhar Han sung Technologies Pvt. Ltd.	50.00%	Equity Method
Indo Toolings Pvt. Ltd.	50.00%	Equity Method
Sandhar ECCO Green Energy Pvt. Ltd.	50.00%	Equity Method
Sandhar Daewha Automotive Systems Private Limited	50.00%	Equity Method
Sandhar Amkin Industries Private Limited	50.00%	Equity Method
Jinyoung Sandhar Mechatronics Private Limited	50.00%	Equity Method
Sandhar Daeshin Auto Systems Private Limited	50.00%	Equity Method
Sandhar Whetron Electronics Private Limited	50.00%	Equity Method
Kwangsung Sandhar Technologies Pvt. Ltd	50.00%	Equity Method

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About ICRA Limited:

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