ICRA

March 31, 2025

Sandhar Engineering Private Limited: [ICRA]A(Stable)/[ICRA]A2+; Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loans	196.00	[ICRA]A(Stable); Assigned
Long-term/short term fund-based working capital facilities	40.00	[ICRA]A(Stable)/[ICRA]A2+; Assigned
Total	**236.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to the bank lines of Sandhar Engineering Private Limited (SEPL) are supported by its strong parentage, Sandhar Technology Limited (STL), which holds a 100% stake. SEPL is involved in the business of manufacturing mufflers, swingarm frames and other automotive products, including sheet metal components. It derives revenues from the two-wheeler (2W) segment, supplying products to Hero Motocorp Limited (HMCL) and TVS Motor Company Limited (TVS). STL extends need-based funding support to SEPL and has also extended corporate guarantees to the bank facilities availed by SEPL. Given the favourable 2W demand outlook, SEPL's revenue and earnings growth are expected to be strong in the medium term. SEPL's ratings are, however, constrained by customer concentration risks and a moderate standalone credit profile with the ongoing ramping up of operations and vulnerability of its earnings to input price movements.

STL has a strong business profile with diversified product offerings in 2W, passenger vehicles (PV), commercial vehicles (CV), tractors and off-highway vehicle segments. STL enjoys a high wallet share with its key clientele and has strong product engineering and development capabilities, apart from technological tie-ups with global players. The parent entity's financial profile is comfortable, which has been characterised by strong revenue growth, earnings and cash flows in the last five years. Moreover, the expectations of sustained growth going forward amid a favourable demand outlook (especially 2W), and focus on increasing content per vehicle, new product additions and business collaborations provide further comfort. STL has moderate product and segment concentration risks with ~60% of revenues generated from the 2W segment and the top two customers (HMCL and TVS), representing over 50% of revenues. In the last few years, STL has incurred a significant debt-funded capex and investments in new businesses as well as its overseas subsidiary, the returns from which are expected over the medium term. This has led to lower RoCE levels (12.5% in FY2024) and moderation in the debt protection metrics (total debt to operating profits at ~2.2x in FY2025e as against ~1.5x in FY2022 and interest cover at 6.5x in FY2025e as against over 10x in FY2022). The debt indicators are likely to improve in the near to medium term, with likely improvement in earnings and cash flows. Any potential impact of tariff actions by the US Government on STL's operations is a critical monitorable.

The stable outlook on the long-term rating reflects an expectation that STL will continue to support SEPL for any operational or financial need in a timely manner, apart from the sustained improvement in its standalone credit profile.

Key rating drivers and their description

Credit strengths

Support from the parent entity - SEPL is an extended arm of STL, which holds a 100% stake. It is one among the many subsidiaries and JVs of STL, which were commenced to meet STL's broader diversification initiatives. SEPL manufactures mufflers, swingarm frames and other auto products, which are sheet metal components. Like other investee entities, SEPL leverages STL's strong business profile and customer connections. STL extends need-based funding support to SEPL and has also extended corporate guarantees to the bank facilities availed by SEPL. Given the favourable 2W demand outlook, SEPL's revenue and earnings growth are expected to be strong in the near to medium term.

Healthy credit profile of parent - STL has an established presence in the auto component industry and caters to automotive segments, and its operations are carried out from over 40 manufacturing plants. The promoters have vast experience in the auto ancillary business, which supports its growth and business plans. STL has a well-diversified product range catering to 2W, PV, CV and off-highway vehicles. It generates ~60% revenue from 2Ws, 20% from the PV segment, 15% from OHV (Off-highway vehicles) and 2% from the CV segment apart from ~5% from other segments like 3W, non-autos, aftermarket, scrap etc. The product line includes locking systems, cabin and fabrication, sheet metal components, assemblies of vehicle parts, vision systems, etc. STL derives over 85% of its revenues from the domestic market. Over the last five years, STL's consolidated sales grew by ~15% (CAGR), supported by the growth across products and segments. STL's consolidated capex in FY2022-24 was over Rs. 800 crore towards capacity additions and new product developments. The benefits of the capex spend and investments are likely to accrue going forward with the ramp-up of operations.

Credit challenges

Concentration risks related to product and segments – Akin to the parent, SEPL's business profile is exhibited by high concentration towards a particular industry segment and specific products. Its entire revenues are from the 2W segment, derived from HMCL and TVS. The client and segment customer concentration risks are mitigated to an extent by the reputed client profile, holding a dominant market share, a strong share of business with OEMs and long-term associations.

Moderate credit profile – At present, SEPL's credit profile is moderate, given the ongoing stabilisation of its operations. Nonetheless, it is expected to improve in FY2026. SEPL's margins are susceptible to any major price variations of raw materials. However, improved operating leverage, negotiation-based pass-throughs and cost-optimisation measures cap the moderation in margins, and these are likely to continue going forward. For the nine-month period ending December 2024, SEPL clocked revenues of Rs. 287 crore with ~7% operating margins.

Liquidity position: Adequate

SEPL's liquidity position is adequate, supported by fund infusions from its parent entity and improving standalone cash flows. STL has extended corporate guarantees on the loans being availed by the company. STL is expected to provide any need-based support to SEPL and ensure that the entity meets its debt obligations in a timely manner.

Rating sensitivities

Positive factors – The ratings could witness an upward revision in case of a sustained improvement in the performance of the company, driven by healthy revenue growth, earnings and debt protection metrics.

Negative factors – The ratings could witness a downward revision in case of a sharp deterioration in the credit profile. Any weakening of linkages with the parent entity will be a critical monitorable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Auto Components]
Parent/Group support	Parent company: Sandhar Engineering Limited (rated [ICRA]AA- (Stable)/[ICRA]A1+); ICRA expects STL to extend timely and adequate financial support to SEPL, should there be a need.
Consolidation/Standalone	Standalone

About the company

SEPL was incorporated in October 2021, as the wholly owned subsidiary of STL. SEPL is involved in the business of manufacturing various mufflers, swingarm frames and other automobile products, including metal sheet components. The parent company, STL, has more than three decades of operations in the auto ancillary sector. Through SEPL, STL set up three green-field projects. SEPL has set up one plant in Gujarat and two plants in Karnataka, which gradually commenced operations in FY2023 and H1 FY2024.

Key financial indicators (audited)

Standalone	FY2023	FY2024
Operating income	46.5	230.9
PAT	-15.1	-15.6
OPBDIT/OI	-8.3%	2.8%
PAT/OI	-32.5%	-6.8%
Total outside liabilities/Tangible net worth (times)	2.7	3.2
Total debt/OPBDIT (times)	-28.8	19.5
Interest coverage (times)	-0.6	0.6

Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; total debt includes lease liabilities

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. Crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				March 31, 2025	-		
1	**Term Loans**	Long term	196.0	[ICRA]A (Stable)	-	-	-
2	**Working capital facilities**	Long term/ Short term	40.0	[ICRA]A (Stable) / [ICRA]A2+	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Term Loan	Simple
Long term/short term – Working capital facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]()

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	FY2023	9.00%	FY2029	196.00	[ICRA]A(Stable)
NA	**Working capital facilities**	NA	NA	NA	40.00	[ICRA]A(Stable)/ [ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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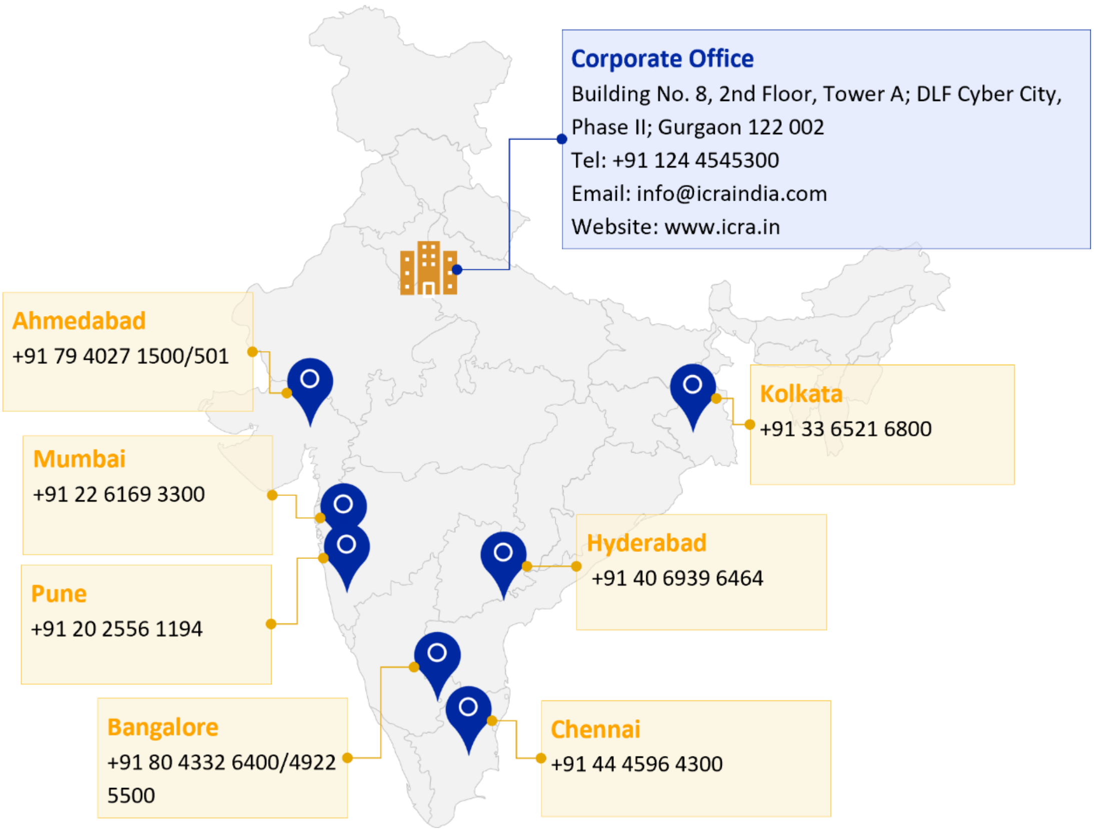

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