

## Sandhar Technologies IPO Note : Expensive Valuation - Avoid



### Focused On Safety And Security Systems Of Vehicles

**A well diversified revenues stream augurs well for the company's prospects. The track record has been impressive however the valuations look expensive**

Incorporated in 1987 and promoted by first-generation entrepreneur Jayant Davar, Sandhar Technologies (ST) is a component supplier primarily catering to automotive OEMs. It is in the business of designing and manufacturing a diverse range of automotive components, parts and systems, largely focused on safety and security systems of vehicles.

**The company is a leader in the two-wheeler locking systems market, and the commercial vehicle rear view market in India, and is one of the two largest companies catering to the commercial vehicle locking systems market, and the two wheeler rear view market in India.** It is also one of the two largest manufacturers of operator cabins in India, along with being the largest player in the excavator cabins market.

Presently, the company manufactures 21 categories of products, including such product categories that are manufactured through subsidiaries and joint ventures, catering to different industry segments. Its portfolio comprises various 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. It also manufactures 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's customer portfolio consists of 79 Indian and global OEMs across various segments including Ashok Leyland, Doosan Bobcat, Escorts, Hero, Honda Cars, Komatsu, Scania, TAFE, Tata Motors, TVS, UM Lohia, and Volvo Caterpillar, CTS, Hyundai Construction, International Tractors, JCB, Kobelco, Mahindra & Mahindra, and SML Isuzu etc. It also has relationships with global automotive component suppliers such as Autoliv, Bosch, and CTS, to whom it supplies various products.

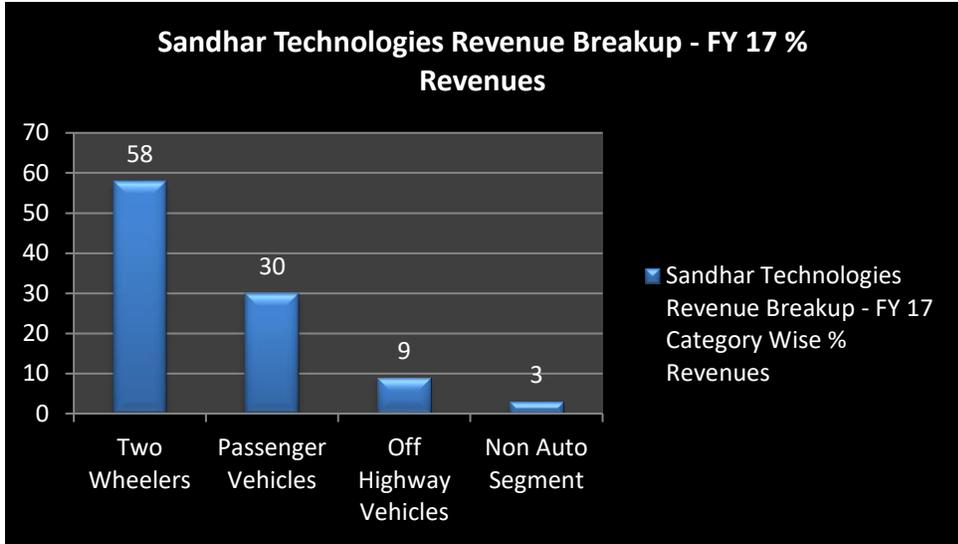
It has a pan India presence and a growing international footprint. Currently, ST manufactures products from 31 manufacturing facilities across eight states in India, two manufacturing facilities in Spain, and one manufacturing facility in Mexico. Further, it is in the process of commissioning five manufacturing facilities in India and an overseas assembly and packaging center in Poland. Before the end of this calendar year it will have total 40 manufacturing facilities globally.

It also has six joint ventures with: a) JBM Auto, b) Han Sung, c) Jinyoung Electro-Mechanics, d) DMRG and Tarun Agrawal, e) Daewha Fuel Pump and f) Amkin group. Through these JVs, Sandhar also produces products such as high precision press parts, insert moulded contact plates, AVN panels and switches.

Company has a strong R&D team comprising 35 engineers as on December 31, 2017 based out of SCID in Gurugram. It has registered 14 product patents and filed 2 trademark applications. The company also has technical collaboration with Honda Lock and JEM Technologies. In the last 12 years, the company has received investment by two private equity investors: Actis Group in FY 2006 and GTI in FY 2012.

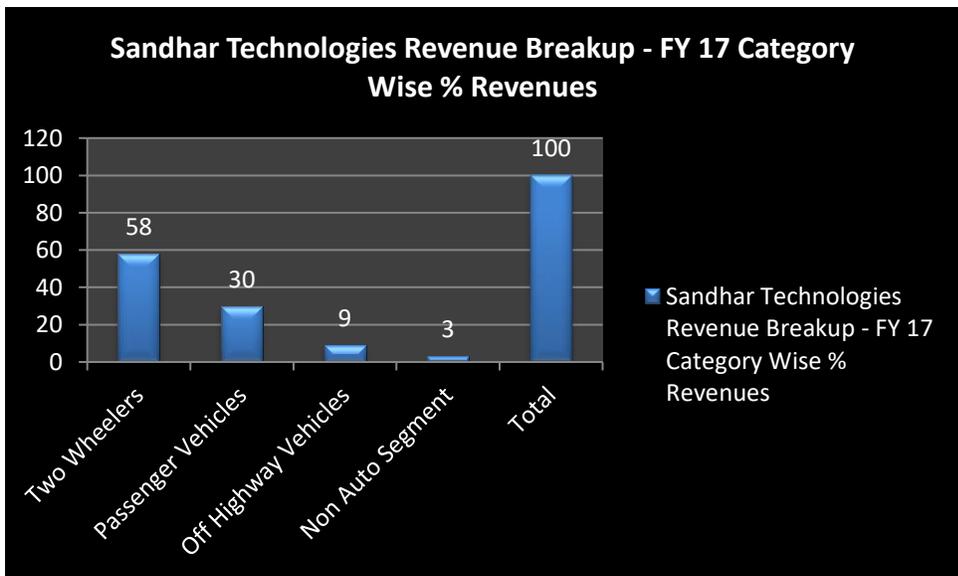
#### Revenue Breakup – Sandhar Technologies – FY 17

| <b>Sandhar Technologies</b>    |                   |
|--------------------------------|-------------------|
| <b>Revenue Breakup - FY 17</b> |                   |
| <b>Category</b>                | <b>% Revenues</b> |
| Locks                          | 23                |
| Mirror assembly                | 13                |
| Wheel Assembly                 | 11                |
| Sheet Metal                    | 13                |
| Aluminium Components           | 17                |
| Other Components & Spares      | 23                |
| <b>Total</b>                   | <b>100</b>        |



### Revenue Breakup – Sandhar Technologies – FY 17 – Category Wise

| Sandhar Technologies                  |            |
|---------------------------------------|------------|
| Revenue Breakup - FY 17 Category Wise |            |
| Category                              | % Revenues |
| Two Wheelers                          | 58         |
| Passenger Vehicles                    | 30         |
| Off Highway Vehicles                  | 9          |
| Non Auto Segment                      | 3          |
| <b>Total</b>                          | <b>100</b> |



## The Offer and the Objects

The offer comprises initial public offering of Rs 300 crore, which at lower price band of Rs 327 per share, works out to 91.74 lakh equity shares and at higher price band of Rs 332, the issue size works out to 90.36 lakh equity shares. The offer also comprises offer for sale of 64 lakh shares, which at lower price band of Rs 327 per share, works out to Rs 209.28 crore and at higher price band of Rs 332, the issue size works out to Rs 212.48 crore. The selling shareholders comprises of GTI Capital Beta Pvt Ltd. The average cost of acquisition of shares by the selling stakeholder, i.e., GTI Capital Beta Pvt. Ltd., is Rs. 84 per share.

The minimum bid lot is 45 equity shares and in multiples of 45 equity shares. The issue is made through the book-building process and will open on 19 March and will close on 21 March 2018..

**The objects of the issue is to repay certain borrowings availed by the company of Rs 225 crore and balance for other corporate purposes apart from the benefits of listing the equity shares on the BSE and the NSE and to enhance its visibility and brand image and provide liquidity to its existing shareholders.**

## Strengths

There is long-standing and growing relationship with major OEMs. ST's relationship with its customers provides it with the opportunity to cross sell multiple products to them.

There is diversified product portfolio. ST commenced its business by manufacturing sheet metal components, and over the years has diversified into 21 various products across different automotive segments

There is vertical and horizontal integration of operations. The company is present across various levels of the automotive component critical value chain, providing products and services that range from product design and prototyping to tool manufacturing, assembly, as well as production of integrated components.

The company's strategy has been to invest in locations close to its OEM customers' plants, thus aiding for proximity to sales. It has expanded from 4 manufacturing locations in FY 2005 to 31 locations by FY 2017, all close to its customers both locally and globally

The company plans to leverage current trends in the automotive sector such as increasing focus on safety, fuel efficiency, comfort, customisation, entertainment and communication, as well as auto electronics. The company has made significant investment in capital expenditure in the last three years, investing around Rs 137.16 crore, Rs 101.2 crore, and Rs 127.90 crore in FY 2017, FY 2016 and in FY 2015 respectively.

## Weaknesses

There is a limited number of customers and higher dependency on OEM sales. OEM sales constituted 78.76% and 75.09% of net sales for H1 ended FY 2018 and FY 2017 respectively. Revenues from top 5 customers constituted 67.15% and 67.86%, of consolidated net sales for FY 2017, FY 2016, and 70.27% for the six months period ended September 30, 2017.

Despite company trying to generate higher revenues from passenger car/cv and non auto markets, two-wheeler sales continue to dominate its revenues which account for 58.6% and 59.3% for FY 2017 and H1 ended September 2017 revenues. Any slowdown or adverse change in demand in the two-wheeler automobile sector on account of various factors including cyclicity in demand, adverse monsoon affecting rural demand and such other facts could adversely impact company's operations.

Zinc, aluminium, steel, plastics, nickel, brass, copper and glass are major raw material for the company. Any severe price fluctuations can result in inability of the company to pass on to large OEM customers resulting in lower margins.

## Valuation

For FY 2017, consolidated net sales were up 8% to Rs 1626.87 crore. The OPM stood at 9% down by 30 bps thus restricting in OP growth to 3% to Rs 145.82 crore. Other income stood at Rs 6.66 crore up by 43%. Interest cost was up by 1% to Rs 42.24 crore while depreciation was higher by 9% to Rs 60.28 crore. Thus PBT stood at Rs 49.96 crore up by 2% YoY. There was an EO loss of Rs 51 lakh in FY 2017 as compared to EO loss of Rs 3.74 crore for FY 2016, both pertaining to los on impairment of assets. Thus, PBT after EO stood at Rs 49.45 crore, up by 9%. After paying total tax of Rs 9.89 crore, and MI of Rs 37 lakh, consolidated PAT for FY 2017 stood at Rs 39.19 crore, up 17%.

For half year ended September 2017, consolidated net sales stood at Rs 989.41 crore with OPM of 10.3% resulting in an OP of Rs 102.39 crore. Other income stood at Rs 1.19 crore. Interest cost was at Rs 19.80 crore and depreciation stood at Rs 33.68 crore thus resulting in PBT of Rs 50.10 crore. After providing for total tax of Rs 15.52 crore and MI of Rs 37 lakh, consolidated PAT stood at Rs 34.23 crore. Due to seasonality of business, half yearly earnings cannot be annualised.

**The diluted equity share capital of the company at upper price band of Rs 332 stands at Rs 60.19 crore of face value of Rs 10. This gives an EPS of Rs 6.5 for FY 2017. The P/E on FY 2017 earnings works out to 51. We believe valuations are expensive**

Minda Corporation, Gabriel India and Fiem Industries are some of its peers which are listed. For FY 2017, consolidated net sales and PAT of Minda Corporation stood at Rs 2930.51 crore and Rs 94.55 crore. This gives an EPS of Rs 4.52. At current market price of Rs 188, Minda corporation trades at P/E of 41.2 times its FY 2017 consolidated earnings. For FY 2017, standalone net sales

and PAT of Gabriel India stood at Rs 1513.06 crore and Rs 82.82 crore. This gives an EPS of Rs 5.8. At current market price of Rs 142, Gabriel India trades at P/E of 24.5 times its FY 2017 standalone earnings. For FY 2017, consolidated net sales and PAT of Fiem Industries stood at Rs 1009.88 crore and Rs 43.40 crore. This gives an EPS of Rs 33. At the current market price of Rs 839, Fiem Industries trades at P/E of 25.4 times its FY 2017 consolidated earnings.

| <b>Sandhar Technologies: Issue highlights</b>                |            |
|--|------------|
| Fresh Issue ( in no of shares in lakhs)                      |            |
| - On lower price band  | 91.74      |
| - On upper price band  | 90.36      |
| Total Issue size for fresh issue ( in Rs crore)              | 300.00     |
| Offer for sale ( in Rs crore)                                |            |
| - On lower price band  | 209.28     |
| - On upper price band  | 212.48     |
| Total Issue size for fresh issue ( in no of shares in lakhs) | 64.00      |
| Price Band (Rs)  | 327-332    |
| Bid size ( in no of shares)                                  | 45.00      |
| Post issue share capital (Rs crore)                          | 60.19      |
| Post-issue Promoter & Group shareholding (%)                 | 70.1%      |
| Issue open date  | 19-03-2018 |
| Issue closed date  | 21-03-2018 |

| <b>Sandhar Technologies: Consolidated Financials</b>                               |          |          |          |          |          |          |
|--|----------|----------|----------|----------|----------|----------|
|  | 1303(12) | 1403(12) | 1503(12) | 1603(12) | 1703(12) | 1709(06) |
| Net Sales  | 1159.95  | 1265.00  | 1482.05  | 1513.22  | 1626.87  | 989.41   |
| OPM (%)  | 8.0%     | 9.2%     | 9.4%     | 9.3%     | 9.0%     | 10.3%    |
| OP   | 93.08    | 116.31   | 139.15   | 141.31   | 145.82   | 102.39   |
| Other in.  | 2.34     | 3.88     | 5.29     | 4.67     | 6.66     | 1.19     |
| PBDIT  | 95.42    | 120.19   | 144.44   | 145.98   | 152.48   | 103.58   |
| Interest   | 34.07    | 39.05    | 40.63    | 41.86    | 42.24    | 19.80    |
| PBDT   | 61.35    | 81.14    | 103.80   | 104.12   | 110.24   | 83.78    |
| Dep.   | 35.92    | 39.37    | 52.37    | 55.15    | 60.28    | 33.68    |
| PBT  | 25.43    | 41.77    | 51.43    | 48.97    | 49.96    | 50.10    |
| EO   | 0.00     | 0.00     | 0.00     | 3.74     | 0.51     | 0.00     |
| PBT after EO   | 25.43    | 41.77    | 51.43    | 45.22    | 49.45    | 50.10    |
| Tax (including Deferred Tax)   | 6.24     | 8.53     | 13.03    | 11.47    | 9.89     | 15.52    |
| PAT  | 19.18    | 33.24    | 38.40    | 33.75    | 39.56    | 34.57    |
| Minority interest (MI)   | 0.13     | 0.13     | 0.12     | 0.30     | 0.37     | 0.34     |
| PAT after MI   | 19.06    | 33.11    | 38.28    | 33.45    | 39.19    | 34.23    |
| EPS (Rs)*  | 3.2      | 5.5      | 6.4      | 5.6      | 6.5      | #        |
| *EPS is on post issue equity capital of Rs 60.19 crore of face value of Rs 10 each |          |          |          |          |          |          |
| # EPS not annualised due to seasonality of business                                |          |          |          |          |          |          |
| Figures in crore   |          |          |          |          |          |          |
| Source: Capitaline Databases   |          |          |          |          |          |          |

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