

Date: 17-03-2018

Review Report - Sandhar Technologies Limited - IPO Note

SANDHAR

Sandhar Technologies Limited

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IPO Financials and Key Detail:

Issue Open	Mar 19, 2018 - Mar 21, 2018
Issue Type	Book Built Issue IPO
Issue Size	- Fresh Issue of 9,000,000 Equity Shares of Rs 10 aggregating up to Rs 300.00 Cr
Face Value	- Offer for Sale of 8,000,000 Equity Shares of Rs 10 aggregating up to Rs 265.00 Cr.
Issue Price	Equity Shares of Rs. 10
Listing At	Rs. 327 - Rs. 332 per Equity Share
Minimum Lot Size	BSE, NSE
	45 Equity Shares

About the Company:

Incorporated in 1987, Sandhar Technologies Limited is New Delhi, India based company engaged 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 are 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.

The company manufacture its products from 29 manufacturing facilities across eight states in India, two manufacturing facilities in Spain, and one manufacturing facility in Mexico.

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 etc. In the last 12 years, the Company has received investment by two private equity investors, namely Actis Group and GTI.

As of October 31, 2017, it had a total work force of 7,744 individuals comprising of 2,363 employees, and 5,381 individuals engaged on contractual basis.

Management:

The Management of the Company includes:

- 1). Dharmendar Nath Davar (Chairman and Non-Executive, Non-Independent Director)
- 2). Jayant Davar (Co-Chairman and MD)
- 3). Arvind Joshi (Whole-Time Director)
- 4). Monica Davar (Non-Executive, Non-Independent Director)
- 5). Mohan Lal Bhagat (Independent Director)

The Promoters of the Company currently holds 83% of the Pre-offer issue. Post-offer Promoters' stake would be 70%.

Financial Snapshot:

Consolidated Balance Sheet

(Rs. in Million)

<u>Particulars</u>	<u>31.03.2017</u>	<u>31.03.2016</u>	<u>31.03.2015</u>
<u>Liabilities :</u>			
Shareholder's Funds	3013.34	2736.31	2591.97
Non-Current Liabilities	2234.61	2087.76	1773.51
Current Liabilities	5471.30	4810.98	4779.85
<u>Total</u>	<u>10741.40</u>	<u>9653.53</u>	<u>9160.83</u>
Non-current Assets	6461.77	6036.99	5363.92
Current Assets	4279.63	3616.54	3796.91
<u>Total</u>	<u>10741.40</u>	<u>9653.53</u>	<u>9160.83</u>

Consolidated Profit & Loss Accounts

(Rs. in Million)

<u>Particulars</u>	<u>31.03.2017</u>	<u>31.12.2016</u>	<u>31.03.2015</u>
Total Revenue	16335.30	15178.87	14873.43
Total Operating Expense	5208	4693	4314
<u>Earnings before interest, depreciation and amortization</u>	<u>1524</u>	<u>1460</u>	<u>1444</u>
Finance Cost	427.39	423.52	410.03
Depreciation Expense	602.76	551.52	523.71
<u>Profit before tax and exceptional items</u>	<u>494.50</u>	<u>452.22</u>	<u>514.31</u>
Tax Expense	98.92	114.74	130.29
<u>Profit After Tax</u>	<u>391.91</u>	<u>334.5</u>	<u>382.82</u>

Financial Highlights:

Company has posted adjusted PAT CAGR of 20% as against the Revenue CAGR of 8.8% from FY2013-17. For fiscal year FY2017, the company reported EBIDTA margin of 9%. The Company had ROE and ROCE of 13% and 17% respectively in FY2017.

Objects of the Issue:

Fresh issue: Repayment or prepayment in full, or in part of certain loans availed by the Company; ; and General corporate purposes

Offer for Sale: The Company will not receive any proceeds from the Offer for Sale.

Business Profile:

Sandhar Technologies Limited (STL) is a customer centric component supplier primarily catering to automotive OEMs and largely focused on safety and security systems of vehicles with a pan India presence and a growing international footprint. It is the 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. STL is also one of the two largest manufacturers of operator cabins in India, along with being the largest player in the excavator cabins market. Its business involves designing and manufacturing a diverse range of automotive components, parts and systems, driven by technology, process, people and governance. Its long-standing relationship with major customers has been one of the most significant factors contributing to STL's growth.

Presently, STL manufacture 21 categories of products, including such product categories that are manufactured through its Subsidiaries and Joint Ventures, which cater 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 manufacture 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.

STL 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. Its products are manufactured through diversified technology platforms such as plastic injection moulding, zinc die casting, aluminium die casting, sheet metal stampings and fabrication, automotive electronics and robotic painting. It also has dedicated in-house tool room facilities. Whilst many of these processes were established as a part of its backward integration strategy, it has also been able to commercialise many of these processes for direct supplies to meet the needs of its customers.

Research and development is a critical part of STL's business and its research and development team comprises of 35 engineers as on December 31, 2017 who are all based out of SCID in Gurugram, Haryana, India. Its research and development team primarily work on the development of new products, designing, prototyping, and product upgrades. Additionally, most of its manufacturing facilities have their own engineering department which focuses on customer programs and continuous improvements to specific products.

Investment Rationale:

- Long-standing, and growing relationships with major OEMs.
- Diversified product portfolio.
- Production facilities close to customers based on philosophy – ‘Be Glocal.
- Vertical and horizontal integration of operations from product designing to supply solutions.
- In-house research and development, design capability and technical collaborations.
- Experienced and strong management team backed by good governance standards.

Key Concern:

- Depend on a limited number of customers for a significant portion of revenues.
- If STL experiences insufficient cash flows to fund working capital requirements or to service working capital loans, there may be an adverse effect on business, financial condition, results of operations and prospects.

Our View:

We recommend to **“SUBSCRIBE”** the IPO of Sandhar Technologies Limited considering its sound track record of operational and financial performance. It is coming with a P/E of 31x based on FY2017 earnings.

Report Prepared by:
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