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SANDHAR TECHNOLOGIES LIMITED

March 19, 2018

SANDHAR

Growth. Motivation. Better Life

SMC Ranking

★★½☆☆ (2.5/5)

Issue Highlights

Industry	Auto Industry
Offer for sale (Shares)	6,400,000
Fresh Issue (Shares)	9,036,145
Net Offer to the Public	**15,436,145**
Issue Size (Rs. Cr.)	504-513
Price Band (Rs.)	327-332
Offer Date	19-Mar-18
Close Date	21-Mar-18
Face Value	10
Lot Size	45 shares

Issue Composition

	In shares
Total Issue for Sale	15,436,145
QIB	9,261,687
NIB	2,315,422
Retail	3,859,036

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	82.53%	70.14%
QIB	17.47%	19.60%
NIB	0.00%	3.85%
Retail	0.00%	6.41%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

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

Book Running Lead Manager

- ICICI Securities Limited
- Axis Capital Limited

Name of the registrar Link Intime India Private Limited

About the Company

Sandhar Technologies is a component supplier mainly catering to automotive OEMs and primarily focused on safety and security systems of vehicles. The company has pan India presence and a rising international footprint. The company manufactures its products from 31 manufacturing facilities across eight states in India, two manufacturing facilities in Spain, and one manufacturing facility in Mexico. The company 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. Its business involves designing and manufacturing a range of automotive components, parts and systems, driven by technology, process, people and governance. Company's customer portfolio consists of 79 Indian and global OEMs across various segments. As of December 31, 2017, the company had a total work force of 7,426 individuals comprising of 2,292 employees, and 5,134 individuals engaged by it on contractual basis.

Strength

Long-standing, and growing relationships with major OEMs: The company has long-standing relationships with 79 Indian and global OEM customers, which include some leading companies such as Ashok Leyland, Doosan Bobcat, Escorts, Hero, Honda Cars, Komatsu, Scania, TAFE, Tata Motors, TVS, UM Lohia, and Volvo. It has grown its client base over the last few years to include OEMs such as Caterpillar, CTS, Hyundai Construction, International Tractors, JCB, Kobelco, Mahindra & Mahindra, and SML Isuzu. Its long-standing relationship with its major OEM customers provides the company with a significant advantage to effectively compete with its competitors.

Diversified product portfolio: 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 and painted parts such as door handles (inner and outer), panels for televisions, and cabinets for air conditioners. Through its Joint Ventures, it also produces products such as high precision press parts, insert moulded contact plates, AVN panels and switches. It commenced its business by manufacturing sheet metal components, and has over the years diversified into various products across segments, with sheet metal components constituting only 13.79% of its total revenue in Fiscal 2017 on a consolidated basis. Its expanding product portfolio gives the company the opportunity to capture a larger portion of its customers' requirements and further strengthens its relationship with them. It also enables the company to increase its capacity utilisation, allows horizontal deployment of technology across adjacent industries, and vertical deployment of its capabilities for forward and backward integration.

Production facilities close to its customers based on its philosophy – 'Be Glocal': The constant strategy has been to invest in locations close to its OEM customers' plants. Its manufacturing facilities are in close proximity to its OEM customers' plants in all key auto-clusters in India-its manufacturing facilities at Gurugram, Chennai, and Bengaluru are close to plants of Hero, Royal Enfield, and TVS, respectively. Further, in line with its philosophy of being 'Glocal', it has manufacturing facilities in Mexico and Spain, and an assembly and packaging centre in Poland, to cater to customers in western Europe, eastern Europe and NAFTA markets. its presence in all key auto-clusters in India allows it to optimise its deliveries to its customers and facilitates greater interaction with its customers

by enabling it to respond to their requirements in a timely manner. The company has expanded its operations from four manufacturing facilities in India as on March 31, 2005 to 31 manufacturing facilities in India, two manufacturing facilities in Spain, and one manufacturing facility in Mexico.

Vertical and horizontal integration of its operations from product designing to supply solutions: The company has been able to harness its synergies through horizontal and vertical integration across its operations. Similarly, it has also established processes such as plastic moulding, glass convexing, aluminium coating, chrome coating, and painting for mirror assemblies. Further, as part of its horizontal integration strategy, it has successfully commercialised many of its processes for direct supplies to customers in automotive and non-automotive industries.

Strategy

Expansion of product portfolio through investment in new products and business with high growth potential: 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 to develop products that meet its OEM customers' requirements in these areas. It has also entered into joint ventures, technical collaborations, and memoranda of understanding with foreign and domestic players to develop such products such as two-wheeler helmets (Sandhar Amkin), AVN panels, and switches (Jinyoung Sandhar), and high precision press parts, and insert moulded contact plates, and switches (Sandhar Han Sung).

To expand its customer base: The Company, in the past, continuously focused on increasing its customer base. It has added new OEM customers over the years in the automotive and non-automotive sectors, and the revenue contribution from top five customers stood at 67.15% in Fiscal 2017 vis-a-vis 65.59% in Fiscal 2013. It has increased its customer base in the past through new products and segments as well as through acquisitions. The number of OEMs in its customer base has grown from 58 in Fiscal 2013 to 79 in Fiscal 2017.

Increase its wallet share from existing OEM customers: Over the years, it has been able to increase its customers' contribution to its revenue. Its revenue from Royal Enfield was ₹18.75 Crore in Fiscal 2013 which increased to ₹69.74 Crore in Fiscal 2017. Further, its revenue from Honda Cars was ₹46.82 Crore million in Fiscal 2013 which increased to ₹130.50 Crore in Fiscal 2017. It intends to achieve this by marketing, and thereby expanding the sale of each of its existing products to new or existing customers who do not purchase such products from it presently. It has significant potential to increase the wallet share of its existing OEM customers on an ongoing basis. As a part of this strategy, the company is also in the process of commissioning manufacturing facilities in: (i) Oragadam, Chennai, for manufacturing of aluminium die casting components, wheel rim assemblies, cabins and fabrication, (ii) Jaipur, for cabins and fabrication, and (iii) Hosur, for aluminium die casting components.

Inorganic growth through strategic acquisitions: It has a successful track record of acquiring assets and ensuring two-way transfer of best practices. It evaluates potential acquisitions on several criteria including access to technology, new customer access, new / adjacent product portfolio, new market access, size of the acquisition and profitability. Its endeavour is to target segments where it can leverage its existing expertise and competencies to build new capabilities.

Ensure efficiency and cost optimisation and enhance innovation and design capabilities: As automotive manufacturers seek to reduce the cost of manufacturing, it constantly endeavours to reduce the costs of its operations while ensuring the quality of its products. It already has central planning, marketing and raw material procurement teams that help the company reduce cost and achieve operational efficiencies and economies of scale. Ensuring cost rationalisation in its manufacturing processes continues to be one of its key strategies going forward. It intends to focus on adopting strategies to establish a standardised platform across it business units for its processes, hardware and software infrastructure and workforce. It also intend to enhance its research and development, and design capabilities which provide it with a competitive advantage with respect to quality, product development and cost, as well as to continuously explore sustainable cost

improvement initiatives for its operations.

Risk Factors

Depend on a limited number of customers for a significant portion of its revenues: The Company depends on a limited number of customers for a significant portion of its revenues. The loss of a major customer or significant reduction in production and sales of, or demand for its products from its major customers may adversely affect its business, financial condition, results of operations and prospects.

Relies significantly on the two-wheeler market: The company supplies locking systems, vision systems, handle bars, clutch assemblies and steel wheel rims and also assemblies to some of the largest two-wheeler OEMs in the country. Any adverse changes to the demand in the two-wheeler market could adversely impact its business, results of operations and financial condition.

The company may not be successful in implementing its strategies: The success of its business depends largely on its ability to effectively implement its business and strategies. If the company fails to implement its strategies, such as expanding of product portfolio, increasing wallet share from existing OEM customers and enhancing innovation and design capabilities, which could adversely affect its business, results of operations and future prospects.

The Company has experienced delays in the receipt of the UIN from RBI: The Company has experienced delays in the receipt of the unique identification number ("UIN") from RBI in respect of certain allotments of securities made by the Company to Actis Group. Further, there have been delays in complying with reporting obligations to RBI in respect of certain allotments of equity shares made by its Company to Actis Group in the past.

Peer comparison

Co_Name	Net Sales	PAT	EPS	P/E	P/BV	BV	FV	CMP	MCAP
Gabriel India	1723.76	91.56	6.38	22.23	4.21	33.71	1.00	141.80	2036.25
Suprajit Engg.	1386.16	136.74	9.78	28.99	6.74	42.03	1.00	283.40	3963.99
Minda Inds.	4047.74	248.72	28.68	36.97	6.32	167.90	2.00	1060.55	9196.05
Minda Corp	2625.05	122.03	5.83	32.88	5.87	32.66	2.00	191.70	4012.50
JBM Auto	1652.90	71.03	17.41	25.02	4.61	94.41	5.00	435.70	1777.45
Fiem Inds.	1141.25	49.75	30.11	27.64	2.59	321.92	10.00	832.40	1095.42
Sandhar Technologies	1978.81	69.14	11.49	28.90	3.00	110.53	10.00	332.00	1998.33

* Financials are annualised FY18
** Peer companies financials are based on TTM

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 332, the stock is priced at pre issue P/E of 24.56x on its estimated annualised FY18 EPS of Rs. 13.52. Post issue, the stock is priced at a P/E of 28.90 x on its EPS of Rs. 11.49. Looking at the P/B ratio at Rs. 332 the stock is priced at P/B ratio of 4.65x on the pre issue book value of Rs.71.41and on the post issue book value of Rs. 110.53 the P/B comes out to 3.00x.

On the lower end of the price band of Rs.327 the stock is priced at pre issue P/E of 24.19x on its estimated annualised FY18 EPS of Rs. 13.52.Post issue, the stock is priced at a P/E of 28.47x on its EPS of Rs. 11.49. Looking at the P/B ratio at Rs. 327, the stock is priced at P/B ratio of 4.58x on the pre issue book value of Rs. 71.41 and on the post issue book value of Rs. 110.53 , the P/B comes out to 2.96x.

Industry outlook

The two wheelers segment dominates the Indian auto industry (~80% by volumes) and primarily dictates its tone. A robust 5.3% CAGR (during FY12-FY17 period) in total two wheeler sales accelerated auto industry growth, along with a 4% growth in the passenger vehicles segment. On the other hand, a 2% drop in commercial vehicles sales and subdued growth in tractors by 1.7% added to the pressure. It is expected that Growth in affordability, or higher disposable incomes supported by

higher GDP growth and lower inflation and hence muted interest rates are likely to aid demand further. Disbursement of farm loan waivers, which can push demand, remains a key monitorable, too. Urban two wheelers growth is expected to be driven by the rising income, greater women workforce and higher urbanisation due to migration. Also Improved finance penetration with the rise in captive financing (schemes provided by automotive OEM affiliates to customers) by automotive OEMs and deeper reach in tier-III and tier-IV cities (which is expected to drive finance penetration), boosting two-wheeler demand. On the exports front, a revival is expected in FY18 from the low base of FY17 with rise in crude oil prices and in turn improving economic indicators of primary markets as well as from the support of expanding geographical presence and increasing export portfolio of Indian two wheeler manufacturers. Government investments in developing rural roadways are expected to increase demand for two wheelers.

Outlook

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. Looking at the growth in the automobile industry coupled with company's diversified portfolio and continuing client base, it is expected that the company would see good gowth going forward.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 19, 2018
Bid/Offer Closing Date	March 21, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	March 26, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	March 27, 2018
Credit of Equity Shares to depository accounts of Allottees	March 28, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	April 02, 2018

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Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-17 (6 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	989.41	1,626.87	1,513.22
Total expenditure	887.03	1,481.06	1,371.91
Operating Profit	**102.38**	**145.81**	**141.31**
OPM%	1.03	0.90	0.93
Other Income	1.19	6.66	4.67
PBDIT	**103.57**	**152.47**	**145.98**
Depreciation	33.67	60.28	55.15
PBIT	**69.90**	**92.20**	**90.83**
Interest	19.80	42.20	41.87
PBT	**50.10**	**50.00**	**48.97**
Tax	15.52	9.89	11.47
PAT	**34.57**	**40.10**	**37.49**

Balance sheet is on next page

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Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-17	As on 31-Mar-17	As on 30-Sep-16
Non-current liabilities			
Long-term borrowings	191.82	209.25	194.51
Deferred tax liabilities	8.17	8.32	7.97
Long term provisions	0.95	0.82	0.58
Other Long Term Liabilities	10.42	5.08	5.72
Total Non- Current liabilities	**211.36**	**223.46**	**208.78**
Current liabilities			
Short-term borrowings	210.41	183.26	124.68
Trade Payables	315.27	236.23	225.01
Other current liabilities	141.43	113.80	121.90
Short term provisions	23.61	13.83	9.50
Total currentli abilities	**690.72**	**547.13**	**481.10**
Total liabilities	**902.08**	**770.59**	**689.87**
Assets			
Non-current assets			
Tangible assets	612.46	583.87	514.32
Intangible assets	10.93	11.96	13.45
Capital work in progre	69.67	29.249	55.221
	693.05	625.09	583.00
Goodwill on consolidation	0.455	0.526	0.672
Non-current investment	3.035	3.119	3.111
Deferred tax assets	1.341	0.995	0.61
Long-term loans and advances	23.065	15.701	16.31
Other non-current assets	0.301	0.749	0
Total of non-current assets	**721.25**	**646.18**	**603.70**
Current Assets			
Current investment	2.50	1.00	1.00
Inventories	193.53	167.06	159.82
Trade receivables	264.34	209.33	166.68
Cash and bank balances	6.09	7.30	6.04
Short-term loans and advances	45.36	30.35	27.46
Other current assets	2.285	12.921	0.65
Total current Assets	**514.10**	**427.96**	**361.65**
Minority Interest	2.555	2.215	1.848
Total Assets	**1235.36**	**1074.14**	**965.35**
NET Worth	**330.72**	**301.33**	**273.63**
Net worth represented by:			
Share capital	51.16	51.16	51.155
Reserves and surplus	279.57	250.18	222.48
Net Worth	**330.72**	**301.33**	**273.63**

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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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