

Company Background

Incorporated on Oct 19, 1987, Sandhar Technologies Ltd (STL) commenced operations as a supplier to Hero for sheet metal components promoted by a first-generation entrepreneur, Mr. Jayant Davar, Co-Chairman and MD who has 30 years experience in the Original Equipment Manufacturer (OEM) component manufacturing industry. Currently, the company's main business includes manufacturing 21 categories of products and components including locks, mirror assembly, wheel assembly, sheet metals and aluminum components. They cater their products to various industries mainly focused on the automobile industry. Having headquartered in Haryana, Gurugram, operating through its 4 subsidiaries and joint ventures, the manufacturing units are located mostly in North, South and West India in close proximity to its 79 costumers including Hero, TVS and Royal Enfield. Till date, the company has acquired 14 patents and filed 2 trademark applications.

Objectives

The company seeks to raise Rs.3 billion through fresh issue of equity shares and an offer for sale of 6.4 million equity shares at an issue price of Rs.327-Rs.332 for the following purposes:

- ⇒ Rs. 2.25 billion from the Net Proceeds will be used towards repayment of borrowings that will help reduce outstanding indebtedness and debt servicing costs and enable utilization of internal accruals for further investment in growth strategies to fund potential business developments.
- ⇒ The Gross proceeds not exceeding 25% will be used in general corporate purposes which includes strategic initiatives and acquisitions, funding initial stages of equity contribution towards projects, working capital requirements, purchase of equipment and investments into subsidiaries.

Investment Rationale:

Strong establishment in the market

STL caters to different automotive segments such as 2 wheelers, passenger vehicles, commercial vehicles, off-highway vehicles and tractors, as well as non-automotive segments including medical and electrical equipment. The company has a well established relation with its existing costumers which enables them to engineer products according to the customer's specifications. The business plans to follow with the current trends in the automotive sector such as increasing focus on safety, fuel efficiency, comfort, customization, entertainment and communication, as well as auto electronics to develop products that meet OEM customers' requirement. In the past, they have also expanded the product portfolio through acquisitions like addition of operator cabins through the acquisition of Mag Engineering and acquisition of the cabin business of Arkay Fabsteel. The company focuses on increasing the number of components used in the vehicles produced by the OEM costumers'.

Vertically placed with OEM costumers

The company has 31 manufacturing facilities in India across 13 cities and 2 countries and also they are in the process of commissioning 8 more manufacturing facilities in India. One of the strategies of the company is to invest its manufacturing units nearby its OEM costumer's plants which enable them with an opportunity to expand customer base as well as increase product portfolio in all key auto clusters which benefits directly from the sales volatility. They have 6 Joint Ventures which manufacture products such as high precision press parts, insert moulded contact plates, AVN panels, and switches. STL has 50% equity shares in all the 6 joint ventures of which one of them is Honda Lock which is in relation for technical advice for door mirrors, outside door handles, and key sets for automobiles and motorcycles. Apart from this, they have also collaborated with international players for development of parking assistant systems, fuel filters, fuel modules, starter motors and shark-finned antennas.

Expected future demands

STL is one of the 2 largest players of operator cabins, excavator cabins market, 2 wheeler and CV locking systems, 2 wheeler and CV rear view mirrors in India. The safety norms of the government will make certain key vehicle parts like Rear-parking sensors, ABS, CBS, Tyre-pressure monitor, Helmets, Cabins mandatory which will boost the demand of various components. As the vehicle industry consists ~80% of 2 wheelers, it is more likely to directly benefit the automobile components industry. The R&D works on the development of new products, designing, prototyping, and product upgrades. For instance, they patented a fuel tank cap with an inbuilt carbon canister for 2 wheelers which complies with the new BS VI norms for 2 wheelers.

Outlook & Valuation

The income from the rural population is expected to improve going forward with recent government policies like MNREGA and the minimum support price. Also, the roadway projects by the government in the rural region will increase the demand for two wheelers and tractors in the rural areas. The government initiated the BS VI norms for the year 2017-18 and 2020-21 respectively for emission control which will further improve the demand for trucks. STL is already in the process of setting up 6 manufacturing units to capture the future demands. The forward PE of STL for the FY 18 (Annualized Earnings) is at 29.2x which is in line with the FY18 estimated PE of Minda Corp at 27.9x. Hence, we recommend to **SUBSCRIBE** this offer for the long term.

Issue details

Offer period	19th—21st March 2018
Price band	Rs. 327—Rs. 332
Bid lot	45
Listing	NSE & BSE
Issue size (Rs in mn)	5,100.0
Issue size (no. of share in mn)	15.44
Face value	10

Issue Structure

QIB	50%
Retail	35%
HNI	15%
BRLM	ICICI Securities Axis Capital
Registrar	Link Intime India Pvt Ltd

Shareholding Pattern (%)

Particulars	Pre-Issue %	Post-Issue %
Promoter	61.2	41.4
Public	38.8	58.4
Total	100.0	100.0

(*Assuming issue subscribed at higher band)

Research Team
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Income Statement (Millions)

Particulars	FY13	FY14	FY15	FY16	FY17
Revenue					
Revenue from operations	11,599.5	12,650.0	14,820.5	15,132.2	16,268.7
Total revenue	11,599.5	12,650.0	14,820.5	15,132.2	16,268.7
Expenses					
Material consumed	7,349.6	7,688.3	9,114.6	9,025.6	9,602.2
Changes in inventory	(155.0)	43.2	(37.9)	(12.7)	(90.7)
Employee benefit expenses	1,561.5	1,602.2	1,842.8	2,018.4	2,353.6
Other expenses	1,912.6	2,153.2	2,509.5	2,687.8	2,945.4
Total Operating expenses	10,668.8	11,487.0	13,429.0	13,719.1	14,810.6
EBITDA	930.7	1,163.0	1,391.5	1,413.1	1,458.1
Depreciation and amortisation expense	359.2	393.7	523.7	551.5	602.8
Other income	23.4	38.8	52.9	46.7	66.6
EBIT	595.0	808.2	920.7	908.3	922.0
Finance costs	356.4	394.1	410.0	423.5	427.4
Interest Income	15.7	3.6	3.7	4.9	5.0
Profit before Exceptional Items & Tax	254.3	417.7	514.3	489.6	499.5
Exceptional Item	-	-	-	37.4	5.1
PBT	254.3	417.7	514.3	452.2	494.5
Current tax	48.8	81.6	152.3	145.5	99.3
Deferred Tax charge	13.6	3.7	(22.0)	(30.7)	(0.4)
Total tax	62.4	85.3	130.3	114.7	98.9
Minority Interest	1.3	1.3	1.2	3.0	3.7
Profit for the Period/ Year	190.6	331.1	382.8	371.9	397.0
Diluted EPS	3.2	5.5	6.4	6.2	6.6

Source: Company, BP Equities Research

Cash Flow Statement (Millions)

Particulars	FY13	FY14	FY15	FY16	FY17
Cash Flow from operating activities	933	749	996	1,437	930
Cash flow from investing activities	(1,243)	(817)	(1,129)	(1,065)	(1,050)
Cash flow from financing activities	297	(18)	203	(412)	148
Net increase/(decrease) in cash and cash equivalents	(13)	(86)	70	(40)	28
Cash and cash equivalents at the beginning of the period	41	37	20	40	37
Cash and cash equivalents at the end of the period	37	20	40	37	60

Source: Company, BP Equities Research



Balance Sheet (Millions)

Particulars	FY13	FY14	FY15	FY16	FY17
Liabilities					
Share Capital	94	94	102	512	512
Reserves and surplus	1,699	1,977	2,490	2,225	2,502
Minority Interest	13	14	16	18	22
Net worth	1,806	2,085	2,607	2,755	3,035
Long-Term Borrowings	1,328	1,262	1,668	1,945	2,092
Deferred tax liabilities (Net)	140	145	106	80	83
Other long term liabilities	-	-	-	57	51
Long-Term Provisions	1	2	-	6	8
Total liabilities	3,276	3,495	4,381	4,843	5,270
Assets					
Tangible Assets	3,770	4,115	4,607	5,143	5,839
Capital work in Progress	205	263	405	552	292
Intangible Assets	58	76	155	141	125
Deferred tax Assets (Net)	4	0	3	6	10
Long-Term Loans and Advances	178	293	162	163	157
Other non-current assets	52	30	32	31	39
Total fixed assets	4,266	4,778	5,364	6,037	6,462
Current investments	37	0	-	10	10
Inventories	1,166	1,299	1,572	1,598	1,671
Trade Receivables	980	1,514	1,876	1,667	2,093
Cash and Bank Balances	63	27	73	60	73
Short-Term Loans and Advances	184	282	252	275	303
Other current assets	7	2	24	7	129
Total Current Asset	2,437	3,124	3,797	3,617	4,280
Less: Current Liabilities	3,428	4,407	4,780	4,811	5,471
Net Current Assets	(990)	(1,283)	(983)	(1,194)	(1,192)
Total assets	3,276	3,495	4,381	4,843	5,270

Source: Company, BP Equities Research

Key Risks

- ⇒ STL depends upon its limited OEM costumers to conduct its business. Failure to grow the costumer base or an increase in the competition might weaken the business.
- ⇒ The product supplies are mostly in the two wheeler segment and any adverse changes in the segment due to government policies or economic factors may impact the business.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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