Sandhar Technologies Limited

November 30, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	453.67	CARE AA-; Stable	Assigned
Short-term bank facilities	79.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

The ratings assigned to the bank facilities of Sandhar Technologies Limited (STL) derive strength from its long and well-established track record in the auto-ancillary business coupled with experienced promoters. The ratings also derive strength from STL's diversified product portfolio with strong market position, long-standing relationship with diversified auto original equipment manufacturers (OEMs), and its large scale of operations. Its recently concluded large-size capex is expected to result in improvement in its market position along-with improvement in its financial risk profile in the near to medium term. The long-term rating is, however, constrained by its high concentration towards two-wheeler and passenger vehicle segments, relatively lower operating profitability margins, risks associated with the fluctuation in raw material prices and prevalent competition in the auto-ancillary businesses. The ratings are further constrained by its low return indicators due to large-size partly debt-funded capex completed in the recent past.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significant growth in the scale of operations along with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin and return on capital employed (ROCE) beyond 12% on a sustained basis.
- Improvement in the capital structure marked by overall gearing below 0.5x and total debt/PBILDT below 2x on a sustained basis.
- Improved product and customer diversification.

Negative factors

- Significant decline in the scale of operations, along with PBILDT margin lesser than 7% on a sustained basis.
- Deterioration in the capital structure with overall gearing going above 1x and total debt/PBILDT above 3x on a sustained basis.
- Deterioration in the liquidity position with elongation in working capital cycle beyond 50 days on a sustained basis.

Analytical approach: Consolidated. The consolidated approach is because STL's subsidiaries and joint ventures (JVs) operate in a similar line of business and STL has a strong operational, management and financial linkages with them. The list of companies getting consolidated with STL is placed at **Annexure-6**.

Outlook: Stable

On the back of its established relationship with auto OEMs and recently concluded large-size capex, STL is expected to improve its business risk profile along-with improvement in its financial risk profile in the near to medium term.

Detailed description of the key rating drivers:

Key strengths

Long track record in auto ancillary business with experienced promoter group

STL is the flagship company of the Sandhar Group and has long and established track record since 1987 in the auto ancillary industry. The promoters of the group have extensive experience of more than three decades in auto ancillary business. Jayant Davar, who is Co-Chairman and Managing Director of the Company, has experience of over four decades in the auto component sector and is actively involved with several professional bodies, presently Member of Advisory Committee of Fraunhofer Gesellschaft, Germany and advisor to Automotive component manufacturers association.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Diversified product portfolio and customer base with strong market position

STL has an established track record of over three decades in the Auto Ancillary business and caters to a wide range of OEM's requirements such as lock systems, vision systems, metal sheet stampings, aluminium and zinc die casting components, cabins and fabrication and allied businesses, etc. In FY23, almost 36% of TOI was derived from automotive business, 19% from metal sheet and allied vertical, 28% from aluminium and zinc diecasting and 15% from cabin and fabrication vertical. Automotive business which comprises of Lock, mirrors and sensors are mainly supplied to two wheelers and passenger vehicles. Metal sheets and Allied business are supplied majorly to two wheelers. Casting business is done on job work basis to customers such as Hero MotoCorp Limited (HMC) and TVS Motor company Limited (TVS), while cabin and fabrication is mainly to commercial vehicles OEMs, such as JCB India Limited. STL is a market leader, mainly in products such as locks and mirrors, catering the large requirements of HMC and TVS. STL's customer base also stood diversified marked by around 50% of its TOI from HMC and TVS, whereas rest is across multiple customers.

Healthy capacity utilisation coupled with completion of majority of debt-funded capex in FY24

STL at consolidated level operated at capacity utilisation of 80-90% in FY23 barring one of the subsidiary companies, viz., Sandhar Engineering Private Limited (SEPL) where capacity utilisation stood low at around 20% due to its initial period of operations, which however, is expected to improve in the medium term.

STL has constructed eight new plants with an aggregate capex of around ₹555 crore over FY22-FY24. Out of this total capex, STL has already incurred ₹416 crore by end-H1FY24, while the remaining capex is likely to be completed by end-FY24. In India, projects include four plants for sheet metal components, one for surface mount technologies and two plants for machining of castings. The plant at Romania is towards aluminium die-casting. All eight plants have gradually started operations. With completion of large-size capex, CARE Ratings expects the ramp-up of production to gradually improve from FY24 onwards.

Growing scale of operations, expected to improve further in medium term

STL's total operating income (TOI) increased by 25.14% YoY to ₹2,908.91 crore in FY23, mainly driven by both increase in volume as well as improvement in price realisation. The growth was also supported by newly developed products, higher TOI from all vehicle segments, increased share of business from some of the major OEMs, expansion of its customer base, and increasing share of components per vehicle. In Q1FY24, TOI continued to grow to ₹828.90 crore as compared with ₹675.09 crore in Q1FY23 on account of volume growth and improvement in price realisation. CARE Ratings observes that STL's TOI is expected to increase substantially in medium term, due to expected completion of all ongoing capex in FY24.

Moderate leverage and debt coverage indicators, improvement likely in medium term

STL's leverage and debt coverage indicators stood elevated by end-FY23 mainly due to recently completed large-size debt-funded capex, however, the same stood comfortable. Its overall gearing stood at 0.78x as on March 31, 2023, which is likely to improve to less than 0.50x by end-FY25. Similarly, its total debt / PBILDT stood at 2.73x as on March 31, 2023, which is likely to improve to less than 2.00x by end-FY25 in the absence of any large-size capex plans.

Moderate industry prospects

The demand for the products of STL is primarily driven by the demand from the auto sector, mainly two-wheelers, passenger's vehicles off highway vehicles and commercial vehicles, etc. The domestic automobile sales volume is expected to show moderate growth by 7-9% in FY24, after witnessing double-digit growth in FY23. While passenger vehicle sales volume growth is expected to be healthy at 7-9% led by high demand in the sports utility vehicle segment, two-wheeler sales volume growth is expected to remain healthy at 8-10%. The commercial vehicle segment is expected to grow by 5-7% in FY24, on account of higher growth due to structural upcycle in the previous fiscals. Exports are expected to remain subdued in FY24 due to recessionary pressures across key export markets. Projected slowdown in the automobile sales in the major export markets, such as the United States and Europe is expected to impact India's automobile ancillary exports during the year.

Liquidity: Strong

STL's liquidity position stood strong marked by only 22% average utilisation of its fund-based working capital limits in the last 12 months ended August 2023 despite significant growth in its scale of operations in FY23 and Q1FY24. Its unutilised bank limits are expected to be sufficient to meet its incremental working capital requirement in the coming one-year period. Also, despite growth in its scale of operations, it has maintained its operating cycle at around 30 days on the back of its healthy cash flow from operations. Its gross cash accruals are expected to be significantly high vis-à-vis its term debt repayment obligations in the coming three-year period, which shall support its strong liquidity.

Key weaknesses

High revenue concentration, mitigated by long standing relationship with reputed auto OEMs

STL derives more than 75% of its TOI from two-wheeler and passenger vehicle segments. However, it has long and established relationship with diversified set of customers in auto industry wherein around 55% of its income was from two customers and balance was from diversified set of customers. Client concentration risk is mitigated by long and established relationship with reputed domestic OEMs leading to negligible credit risk.

Exposure to volatility in raw material prices and forex risk

Steel, aluminium and zinc are key materials consumed by the company, the prices of which are volatile. The prices of all these raw materials have been fluctuating in past. Out of this, steel contributes around 70% of the TOI in FY23. Accordingly, STL's PBILDT margin is susceptible to volatile raw material prices which can, however, be passed on with a lag of one-to-two quarters. The metal demand, especially steel, aluminium and zinc are cyclical with prices driven by demand and supply conditions in the market coupled with strong linkage to the global market. The procurement of raw material is well diversified with top 10 suppliers covering less than 50% of the total purchases. Also, moderation in commodity prices and healthy topline growth in industry is expected to improve the operating profit margins of auto ancillary companies in near term. At consolidated level, the company's exports are around 15% in FY23, which is mainly export from Sandhar Technologies Barcelona (STB) to nearby countries and there is foreign currency debt, thus leading exposure to forex risk, and group is not hedging its forex exposure leading to forex risk.

Intense competition from other auto ancillary manufactures putting pressure on profitability margins

STL's revenue remains closely aligned to the performance of key auto OEMs and in turn exposed to the cyclical demand patterns inherent to the automobile industry. Following the economic fallout led by the COVID-19 pandemic, domestic as well as global auto sales were impacted. Moreover, subsequently supply chain constraints such as the semiconductor shortage resulted in temporary hiccups in the past. Furthermore, in the auto ancillary industry, with the presence of large number of organised and unorganised players, the business environment is quite competitive leading to relatively lower operating profitability margin of STL. However, the company's established position in the auto ancillary business mitigates this risk to an extent.

Large-size capex in recent past leading to weak return indicators

STL's return on capital employed (ROCE) stood on the lower side at 8.96% in FY23 (PY:7.93%) mainly due to large-size capex done in last three years coupled with demand slowdown due to impact of COVID-19 and semi-conductor shortages. Going forward, with gradual ramp-up in its operations and expected good demand in the near term, CARE Ratings expects its ROCE to improve to more than 12% by end-FY24.

Environment, social, and governance (ESG) risks

Risk Factors	Actions taken by the company
Environmental	▪ The company focuses on innovations and moving forward to the upcoming new era of electric vehicles (EVs) and new technologies overcoming the environmental targets. As majority of the components being supplied by STL has no application related to engines, it is less likely to be impacted due to migration to EVs from conventional fuels. ▪ The company is committed towards its goal of carbon net zero and has been accepting, adopting and moving forward in this direction. The company is venturing into new sustainability technologies. There would be gradual shift from grid-based energy to renewable sources of energy.
Social	▪ The CSR Committee and the Board of the Directors endeavours that the company spends at least 2% of the average net profits made during the immediate three preceding financial years. ▪ Key projects in the area of CSR programme are related to remedial education for under privileged girls, mental health programmes, distribution of stationery and uniforms, promoting preventive healthcare, safe drinking water, eradicating hunger & malnutrition and promotion of art, culture & heritage.
Governance	▪ The company is managed by professional board of directors who have extensive experience in industry. The Board comprises 11 directors, including two women directors. The independent directors are more than 50% of the total number of directors. ▪ There are audit committee, nomination and remuneration committee, stakeholders relationship committee, and risk management committee.

Applicable criteria

[Policy on default recognition](#)
[Consolidation](#)
[Factoring Linkages Parent Sub JV Group](#)
[Financial Ratios – Non financial Sector](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Policy On Curing Period](#)
[Rating Outlook and Credit Watch](#)
[Short Term Instruments](#)
[Auto Ancillary Companies](#)
[Manufacturing Companies](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Automobile and auto components	Auto components	Auto components and equipment

STL is into manufacturing of various automotive components, for more than three decades, such as locking systems, mirror assemblies, metal sheet stampings, cabin and fabrications, wheel assemblies, handlebars assemblies, clutches and brake panels, door handles, etc. The company has total 42 plants, out of which 38 plants are located in India near to auto OEMs and four plants are located in overseas locations, such as Poland, Mexico, Spain and Romania.

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	2,324.45	2,908.91	828.90
PBILDT	207.60	250.09	72.82
PAT	55.93	73.56	21.50
Overall gearing (times)	0.77	0.78	NA
Interest coverage (times)	11.72	6.99	6.41

A: Audited; UA: Unaudited; NA: Not available; Financials are reclassified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	02-07-2027	98.45	CARE AA-; Stable
Fund-based - LT-Working capital limits		-	-	-	321.00	CARE AA-; Stable
Non-fund-based - LT-Letter of credit		-	-	-	34.22	CARE AA-; Stable
Non-fund-based-Short term		-	-	-	79.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	98.45	CARE AA-; Stable				
2	Fund-based - LT-Working capital limits	LT	321.00	CARE AA-; Stable				
3	Non-fund-based-Short term	ST	79.00	CARE A1+				
4	Non-fund-based - LT-Letter of credit	LT	34.22	CARE AA-; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Fund-based - LT-Working capital limits	Simple
3	Non-fund-based - LT-Letter of credit	Simple
4	Non-fund-based-Short term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of companies getting consolidated with STL

Sr. No.	Name of the company	Equity stake of STL as on March 31, 2023
1	Sandhar Engineering Private Limited	100.00 %
2	Sandhar Technologies Barcelona	100.00 %
3	Sandhar Tooling Private Limited	79.92%
4	Sandhar Auto Electric Solutions Private Limited	100.00 %
5	Sandhar Automotive Systems Private Limited	100.00 %
6	Sandhar Auto Castings private limited	100.00 %

List of joint ventures

Sr. No.	Name of the company	Equity stake of STL as on March 31, 2023
1	Sandhar Han Sung Technologies Private Limited	50.00 %
2	Jinyoung Sandhar Mechatronics Private Limited	50.00 %
3	Sandhar Amkin Industries Private Limited	69.12%
4	Kwangsung Sandhar Technologies Private Limited	50.00%
5	Sandhar Whetron Electronics Private Limited	50.00%
6	Winnercom Sandhar Technologies Private Limited	50.00%
7	Sandhar Han Shin Auto Technologies Private Limited	50.00%

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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