

CMP: INR 358

Rating: Buy

Target Price: INR 494

Stock Info

BSE	541163
NSE	SANDHAR
Bloomberg	SANDHAR:IN
Sector	Auto Components & Equipment
Face Value (INR)	10.00
Equity Capital (INR Mn)	602
Mkt Cap (INR Cr)	2,156
52w H/L (INR)	395/195
Avg Yearly Vol (in 000')	89

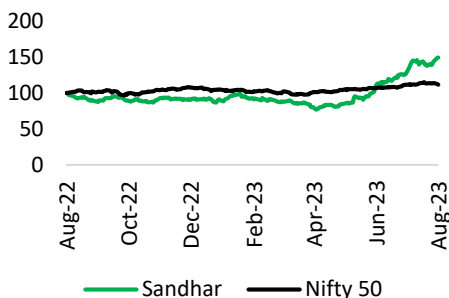
Shareholding Pattern %

(As of June 2023)

Promoters	70.38
DII's	16.96
FII's	1.65
Others	11.01

Stock Performance (%)	1m	3m	12m
Sandhar	-3.1	21.7	51.7
Nifty 50	0.3	4.8	10.4

Sandhar Vs Nifty 50



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STL's consolidated revenue from operations stood at INR 828.9 cr in Q1FY24 against our estimate of INR 825 cr, up by 22.7% YoY/ 7.9% QoQ. Production is being ramped up in new projects and various cost control and saving initiatives are being undertaken. EBITDA for the quarter stood at INR 75.7 cr against our estimate of INR 74 cr, registering a growth of 31.6% YoY/ 2.8% QoQ. The company's EBITDA margin expanded by 60bps YoY and contracted by 40bps QoQ to 9.1%. Our estimate of Margin was 9.0%. Net profit for the quarter grew by 69.2% YoY and decreased by 13% QoQ to INR 21.5 cr in Q1FY24 against our estimate of INR 27.8 cr. EPS at INR 3.6 in Q1FY24 against INR 2.1 in Q1FY23.

Investment Rationale

Strong JV profitability in focus: Sandhar ventures achieved positive EBITDA and EBT Levels. Sandhar Amkin, Winnercom Sandhar, Sandhar Han Sung, and Sandhar Han Shin Auto Technologies show positive PAT. Sandhar Whetron displays positive EBITDA, with expected profitability growth in the next quarter. Though Kwangsung Sandhar remained negative, improvements are evident, reducing losses from INR 8 cr to INR 35 lakhs YoY. With INR 87 cr invested and quarterly sales of INR 78 cr, the JVs forecast an asset turnover of nearly 4 times by year-end and aim for double-digit ROC by FY24. Anticipated asset turnover growth at 4%.

Introducing Sandhar Auto Electric Solutions Private Limited in the EV sector: Three product lines developed in EV segment which are undergoing thorough evaluation. Components include the DC controller (10-20 amperes), EV charger (750W - 1.5kW), and motor controller (1-4 kW). A dedicated entity, Sandhar Auto Electric Solutions Private Limited has been established to spearhead the EV business. Trial runs are expected in Q1FY24. Collaborative agreements are already done with two technical partners.

Increasing PCB production for smart locks: The company is expanding its operational plant to produce PCBs for smart locks. The percentage of PCB cost in a single smart lock varies from 15%-30% across product lines. This strategic initiative, supported by favourable initial margins, anticipates continued growth with rising smart lock adoption.

New projects and production initiatives: Mass production has kicked off in three sheet metal plants at Kalaga, Halol, and Attibele. The Romania plant has commenced production, along with machining and casting projects in Mysore and Hosur. This high-value business yields strong EBITDA margins, despite initial costs leading to a temporary loss of INR 9.75 cr. Ample working capital and strategic planning support expansion efforts without resorting to fresh borrowings.

Outlook and valuation

The sheet metal business is expecting 25-30% revenue growth in current and upcoming financial years and STL aims to continue being the largest producer of locks in the industry. The company is targeting revenue growth of near to 24-26% in FY24 and maintaining double-digit EBITDA margins, with the Romania project in early stages, impacting costs temporarily. EBITDA margins remain above 11%. Moving forward healthy improvement in the consolidated margins is expected. We expect Sandhar's revenue, EBITDA, and PAT to grow at a CAGR of 21%, 26%, and 46%, respectively, over FY23-26E.

We value the consolidated business at EV/EBITDA multiple of 6.0x to FY26E EBITDA of INR 501.4 crore to FY26E EPS of INR 37.9 and arrive at a Target Price of INR 494 per share. Accordingly, we assign a Buy rating on the stock.

Exhibit 1 : Financial Performance

Year-end March (INR Cr)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY22	2,324	206	57	9.5	8.9	118.39	37.0
FY23	2,909	249	74	12.9	8.6	98.26	27.3
FY24E	3,633	324	119	19.9	8.9	75.31	17.91
FY25E	4,418	409	172	28.7	9.3	59.28	12.3
FY26E	5,202	501	227	37.9	9.6	48.19	9.3

Source: Arihant Research, Company Filings

Exhibit 2 : Q1FY24 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR cr)	Q1FY24	Q4FY23	Q1FY23	QoQ%	YoY%
Net Sales	828.00	764.97	675.10	8.2	22.6
Cost of material consumed	508.79	460.32	440.92	10.5	15.4
Changes in inventories	-0.23	14.75	-15.29	-101.6	-98.5
COGS	508.56	475.07	425.63	7.0	19.5
GP	319.44	289.90	249.47	10.2	28.0
Employees benefits expense	114.83	99.91	90.60	14.9	26.7
Other expenditure	132.68	122.49	104.31	8.3	27.2
EBITDA	71.93	67.51	54.56	6.6	31.8
Depreciation	34.00	32.54	28.83	4.5	17.9
EBIT	37.93	34.96	25.73	8.5	47.4
Other Income	2.80	6.13	2.99	-54.3	-6.4
Finance costs	11.36	10.98	7.12	3.5	59.5
PBT	29.37	30.12	21.60	-2.5	36.0
Tax	8.10	7.09	6.05	14.2	34.0
Adjusted PAT	21.27	23.03	15.55	-7.6	36.8
Non-controlling interests	0.00	1.69	-2.84	-100.0	-100.0
Reported PAT	21.27	24.72	12.71	-13.9	67.3
EPS	3.55	3.84	2.12	-7.6	67.3
Margins	Q1FY24	Q4FY23	Q1FY23	QoQ%	YoY%
Gross margins	38.58	37.90	36.95	68bps	163bps
EBITDA	8.69	8.82	8.08	-13bps	61bps
Adjusted PAT	2.57	3.01	2.30	-44bps	27bps
Tax Rate	27.00	23.54	27.99	346bps	-99bps
Effective Tax Rate	27.00	23.54	27.99	346bps	-99bps
Cost Analysis					
RM/Net Sales	62.50	62.10	63.05	40bps	-55bps
Other Exp/Net Sales	15.00	16.01	15.45	-101bps	-45bps
Staff cost/Net sales	13.22	13.06	13.42	16bps	-20bps

Source: Arian Research, Company Filings

Conference Call Highlights

Financial performance

- Achieved 23% revenue growth YoY and 8% growth QoQ at the consolidated level.
- Consolidated EBITDA grew by 60%, with a 9.1% EBITDA margin for Q1FY24.
- EBITDA, EBT, and PAT saw increases of 23%, 31.6%, 58.2%, and 69.2% YoY respectively.
- Working capital is ample for expansion without additional borrowings.

EV

- The company has developed three product lines for the EV segment, including DC controllers (isolated and non-isolated), EV chargers, and motor controllers.
- Sandhar Auto Electric Solutions Private Limited, a new subsidiary, is being established with trial runs expected in Q4FY24.
- Technical collaborations with two partners are in progress to meet customer needs.

New projects

- Mass production has been initiated in sheet metal plants (Kalaga, Halol, Attibele) and the Romania plant, along with machining for casting projects at Mysore and Hosur locations.
- These high value-add ventures exhibit elevated EBITDA margins.

JV

- Sandhar Amkin is EBITDA and PAT positive, Sandhar Han Sung and Winnercom is PAT positive, and Sandhar Whetron EBITDA positive. Although Kwangsung Sandhar remains negative, its losses have reduced from INR 8 cr in FY22-23 to INR 35 lakhs in Q1 FY24.
- Investment in JVs of INR 87 cr.
- Q1 saw JV sales of INR 78 cr (INR 39 cr as the company's share), projecting an asset turnover of nearly 3-4 times by year-end and possibly exceeding 4 times in the future.
- The goal is to achieve double-digit ROC from JVs by year-end, with a focus on increasing asset turnover and stable short-term growth of 4%.

Overseas operations

- Maintaining double-digit EBITDA margins, with the Romania project in early stages, impacting costs temporarily. EBITDA margins remain above 11%. Anticipating stable ROC and revenue from Romania plant by year-end.
- Start-up costs may continue for two more quarters, aiming for normalized production by FY25.

Order book

- Secured orders including a Suzuki order book worth over INR 500 cr for smart locks and regular locks over five years.
- Additional orders are anticipated from Honda's new car business and Tata business. The previous year's orders range from INR 278 cr - 350 cr.

Smart Locks

- Initiated the manufacturing of PCBs for captive consumption, particularly for smart locks. The fully operational plant's capacity is being expanded to ensure swift utilization and monetization.
- PCB costs vary from 15% to 30% of the component's total cost across different product lines.
- Smart locks offer higher margins, and as localization increases, short-term margin growth is anticipated, eventually leading to higher overall profits.

Sheet metal

- Strong potential in sheet metal business with customer confirmation, expecting 25-30% revenue growth in current and upcoming financial years.

Market share

- Dominant player in Hero, expanding presence in Honda with 100% share in their new model locks. Almost 100% suppliers for TVS and Royal Enfield. Key supplier for 60-70% of the recently launched new EVs in the market.

Focus areas

- Debt reduction, operational efficiency, cost control, prudent capex management, manufacturing integration, and product portfolio diversification for customer expansion and increased value.

Aluminium die casting

- Maintains double-digit margins both in India and overseas. Romania's initial year was a limiting factor, but growth is anticipated from next year.
- Strong growth is expected in both overseas and Indian die casting and machining businesses based on customer indications.

Cabin and fabrication

- The strong momentum in this segment is anticipated to continue until at least next year-end, subject to government commitments and election outcomes. Expecting to repeat last year's performance.

Debt and Capex

- Gross debt stands at INR 551 cr and net debt is at INR 525 cr.
- The ongoing capex plan includes a spill over capex of INR 110 cr, with around INR 31 cr already spent this quarter.
- INR 60-70 cr will be allocated for maintenance capital to support tooling and other needs for upcoming customer models.

Other KTAs

- The company's shark fin antennas and camera products are gaining traction across various brands, particularly Hyundai, where the company has become a major supplier.
- The company is actively engaging with customers like Maruti Suzuki, Toyota, and other Japanese clients for potential partnerships in the 4W segment.

Plants

- Out of a total of 42 plants, 8 are in JVs and 4 are separate operations, leaving 30 plants in India.
- The company plans to integrate 2-3 plants in FY24.
- The overseas operations generated around INR 400 cr in revenue from three plants last year, with Romania expected to enter mass production and contribute in the coming year.

Outlook

- Anticipates enhanced consolidated margins through increased production in new projects and ongoing cost-saving measures.
- A goal is set to achieve revenue growth twice the industry average, with a focus on becoming a dominant player, particularly in the two-wheeler sector.

Exhibit 3 : Revenue Mix

Sales mix (%)	Q1FY24	Q1FY23	Q4FY23	FY23	FY22
2W	57	56	52	56	54
PV	21	21	22	20	21
OHV	15	15	18	16	16
CV	2	2	2	2	2
Others	5	6	6	6	7

Source: Company, Arianth Research

Story in charts (INR cr)

Exhibit 4 : Revenue growth led by expanding the customer base and increasing content value

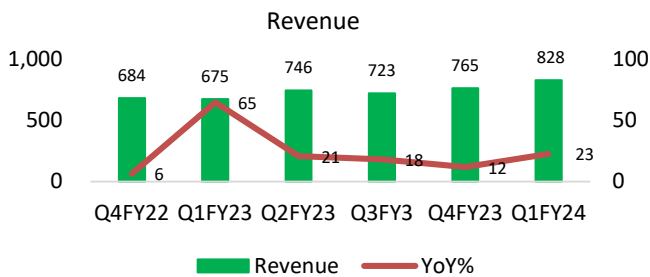


Exhibit 5: Healthy consolidated margins led by cost control initiatives

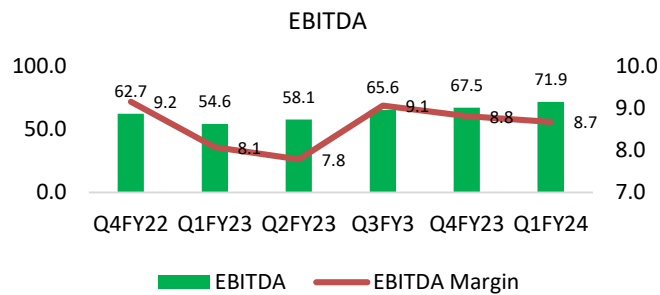


Exhibit 6: Profitability slightly decreased owing to one-time employee costs

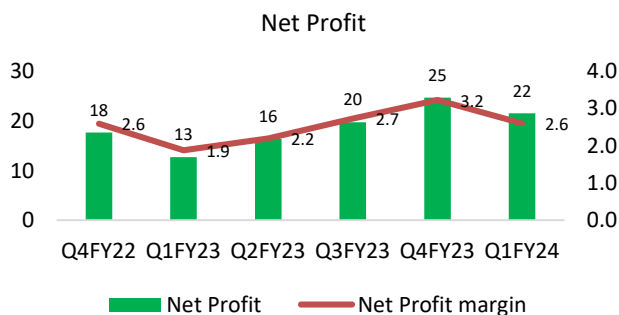


Exhibit 7: EPS trajectory on positive momentum

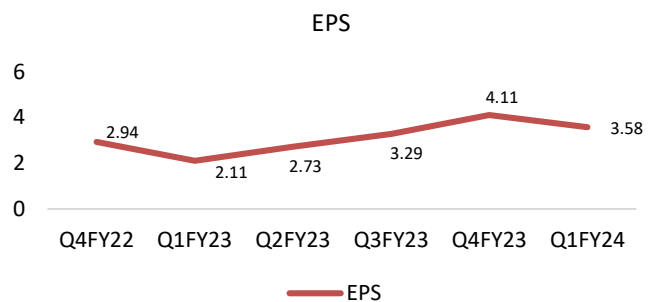


Exhibit 8: Diversified products segments with Cabins & Fabrication and ADC Overseas exhibiting strong performance

Revenue Mix- Segment Wise(%)

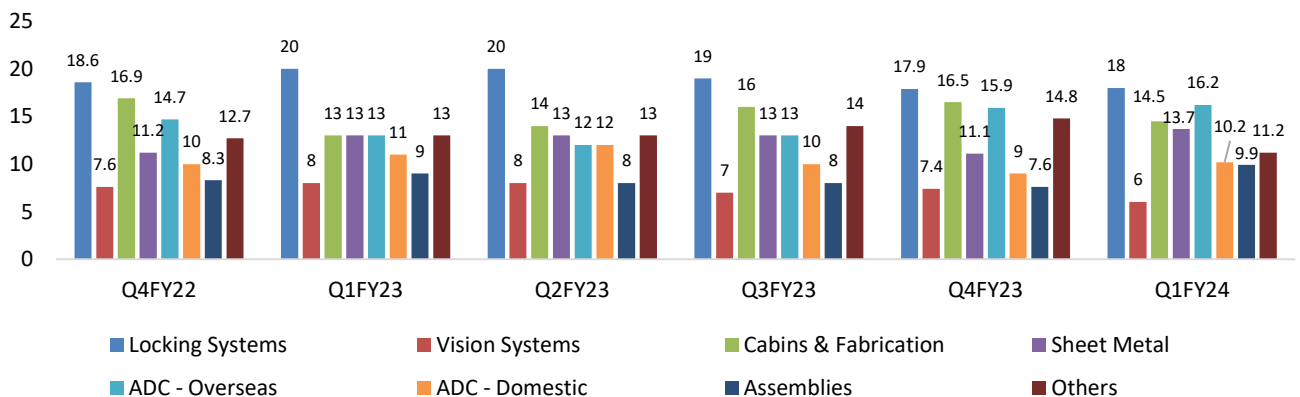
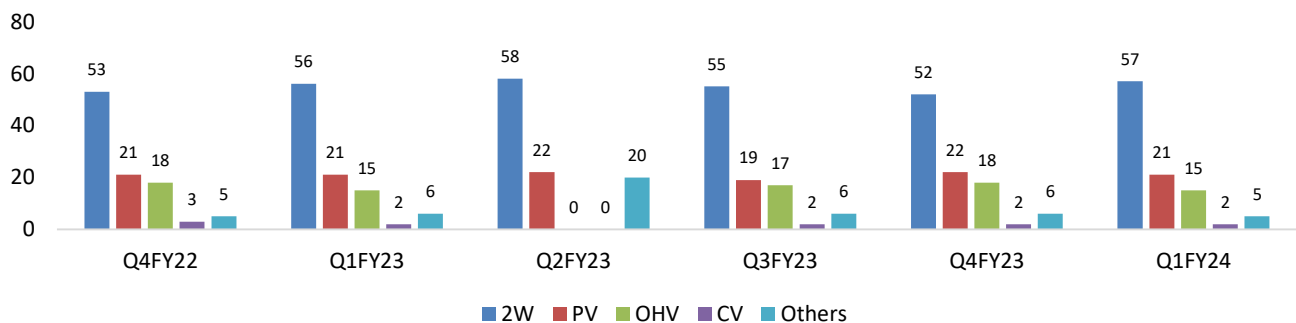


Exhibit 9: Striving to become a leading player particularly in the two-wheeler segment

Revenue Mix- Category Wise(%)



Source: Company, Arihant Research

Key Financials

Income statement (INR Cr)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Gross Sales	2,324	2,909	3,633	4,390	5,166
Net Sales	2,324	2,909	3,633	4,390	5,166
YoY (%)	24.7	25.2	24.9	20.8	17.7
Adjusted RMC	1,416	1,827	2,261	2,722	3,134
YoY (%)	29.6	29.0	23.8	20.4	15.2
Personnel/ Employee benefit expenses	318	385	486	580	674
YoY (%)	14.6	20.8	26.3	19.5	16.1
Manufacturing & Other Expenses	383	448	562	681	791
YoY (%)	25.6	16.9	25.5	21.1	16.1
Total Expenditure	2,118	2,660	3,309	3,983	4,598
YoY (%)	26.4	25.6	24.4	20.4	15.4
EBITDA	206	249	324	407	498
YoY (%)	9.4	20.9	30.0	25.6	22.4
EBITDA Margin (%)	8.9	8.6	8.9	9.3	9.6
Depreciation	106	128	186	253	325
% of Gross Block	4.6	4.4	5.1	5.8	6.3
EBIT	18	36	36	32	28
EBIT Margin (%)	7	12.5	16	12.0	10.0
Interest Expenses	95	104	163	233	308
Non-operating/ Other income	26	27	44	63	83
PBT	70	78	119	170	225
Tax-Total	57	74	119	170	225
Adj. Net Profit	2.5	2.5	3.3	3.9	4.3
Reported Profit	6	6	6	6	6
PAT Margin	11.6	12.9	19.9	28.4	37.4
Shares o/s/ paid up equity sh capital	9	10	12	18	24
Adj EPS	16.3	13.5	10.1	10.6	10.7
Dividend payment	48	64	107	152	201
Dividend payout (%)	2,324	2,909	3,633	4,390	5,166
Retained earnings	2,324	2,909	3,633	4,390	5,166

Balance sheet					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Equity Share Capital	60	60	60	60	60
Reserves & Surplus/ Other Equity	803	865	972	1124	1325
Net worth	863	925	1032	1184	1385
Unsecured Loans/ Borrowings/ Lease Liabilities	330	406.39	362	314	261
Total Debt	331	412	367	318	264
Total Funds Employed	1,193	1,337	1,399	1,502	1,650
Application of Funds					
Gross block	1,434	1,766	1,929	2,138	2,396
Less: depreciation	453	575	713	866	1,039
Net Fixed Assets	981	1,191	1,217	1,272	1,358
Capital WIP	89	95.43	100	105	110
Investments/ Notes/ Fair value measurement	53	49	59	69	79
Current assets	850	804	1,021	1,253	1,475
Inventory	260	300.44	390	470	541
Days	66.9	60.0	63	63	63
Debtors	445	355.35	444	536	631
Days	70.0	44.6	45	45	45
Other Current Assets	140	143	150	157	165
Bank	3	1	3	3	3
Cash	2	5	34	87	135
Current Liabilities/Provisions	770	785	975	1172	1346
Creditors / Trade Payables	398	412	510	613	704
Days	102.5	82.3	82	82	82
Liabilities	362	360	452	544	627
Days	91.7	71.7	73	73	73
Provisions	10	13	13	14	15
Net Core Working Capital	307	244	324	393	468
Days	34.4	22.3	25.3	25.3	25.6
Net Current Assets	80	19	46	81	129
Deferred Tax Asset	-12	6.41	6	6	6
Total Asset	1,973	2,140	2,397	2,699	3,022
Total Capital Employed	1,204	1,355	1,422	1,527	1,682

Cash Flow Statement					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	81	100	163	233	308
Adjustments: Add					
Depreciation and amortisation	100	122	138	154	172.3
Interest adjustment	18	36	36	32	27.6
Adjustments: Less					
Interest income on fixed income securities	-1.1271	-1.1321	0.00	0.00	0.0
Profit/(loss) on sale of investments, net	-0.71	-0.21	-0.71	-0.71	-0.7
Change in assets and liabilities	210	257	343.47	425.03	513.9
Inventories	-48.33	-40.75	-89.86	-79.45	-71.2
Trade receivables	-50.16	89.85	-88.49	-92.40	-94.82
Trade payables	0.76	23.49	97.91	103.74	90.64
Other Liabilities and provisions	-5.04	30.56	92.61	92.73	83.18
Other Assets	-39.2132	-24.4	-7.13	-7.49	-7.86
Net cash from operating activities	48.7	308.5	304.5	379.2	430.8
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-295.97	-250.15	-168.27	-213.52	-263.55
Net Sale/(Purchase) of investments	-18.96	0.5156	-9.01	-9.01	-9.01
Net cash (used) in investing activities	-311.22	-247.55	-177	-223	-273
Interest expense	-17.47	-35.02	-35.77	-31.84	-27.58
Dividend paid	-6.08	-13.57	-12.00	-18.00	-24.00
Net cash (used) in financing activities	259.72	-36.87	-93.05	-99.05	-105.05
Closing Balance	2	5	34	87	135
FCF	(247)	58	136	166	167
Capex as % of sales	12.7	8.6	4.5	4.8	5.0

Key Ratios					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Solvency Ratios	0.38	0.45	0.36	0.27	0.19
Debt / Equity	0.32	0.39	0.26	0.13	0.03
Net Debt / Equity	1.60	1.66	1.13	0.78	0.53
Debt / EBITDA	1.10	1.02	1.05	1.07	1.10
Current Ratio					
DuPont Analysis	194.71	217.51	259.63	292.18	313.17
Sales/Assets	229	231	232	228	218
Assets/Equity	8.08	8.38	11.56	14.37	16.22
RoE					
Per share ratios	9.5	12.3	19.9	28.4	37.4
Reported EPS	1.6	1.7	2.0	3.0	4.0
Dividend per share	143.8	154.2	172.0	197.4	230.8
BV per share	8.1	51.4	50.7	63.2	71.8
Cash per Share	387.3	484.8	605.5	731.6	861.0
Revenue per Share					
Profitability ratios	3.00	2.66	3.28	3.88	4.35
Net Profit Margin (PAT/Net sales)	39.1	37.2	37.8	38.0	39.3
Gross Profit / Net Sales	8.87	8.56	8.91	9.26	9.63
EBITDA / Net Sales	4.56	4.39	5.12	5.76	6.30
EBIT / Net Sales	2.45	2.53	3.28	3.88	4.35
PAT / Net Sales	8.8	9.4	13.1	16.6	19.3
ROCE (%)					
Activity ratios	66.9	60.0	63.0	63.0	63.0
Inventory Days	70.0	44.6	44.6	44.6	44.6
Debtor Days	102.5	82.3	82.3	82.3	82.0
Creditor Days					
Leverage ratios	6.0	3.6	5.2	7.9	11.8
Interest coverage	16.8	19.3	15.3	11.8	8.8
Debt / Asset					
Valuation ratios	118.39	98.26	75.30	59.70	48.57
EV / EBITDA					
P/E based Valuation:	9.5	12.9	19.9	28.4	37.4
EPS	37.4	27.6	17.9	12.6	9.5
P/E	164	223	343	489	646
TP	-2.33	32.71	104.25	191.40	284.66
Upside (%)					
EV/EBITDA based Valuation:	206.0	249.1	323.9	406.7	497.6
EBITDA	1236.2	1494.6	1943.4	2440.1	2985.6
EV	160.62	189.52	278.75	380.13	489.61
Target Price (INR)	0.38	0.45	0.36	0.27	0.19

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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