

Joint Ventures progressively moving towards profitability

CMP: INR 425

Rating: Buy

Target Price: INR 514

Stock Info

BSE	541163
NSE	SANDHAR
Bloomberg	SANDHAR: IN
Sector	Automotive Components & Industry
Face Value (INR)	10.00
Equity Capital (INR Cr)	602
Mkt Cap (INR Cr)	2,558
52w H/L (INR)	437.05/ 194.50
Avg Yearly Vol (in 000')	115

Shareholding Pattern %

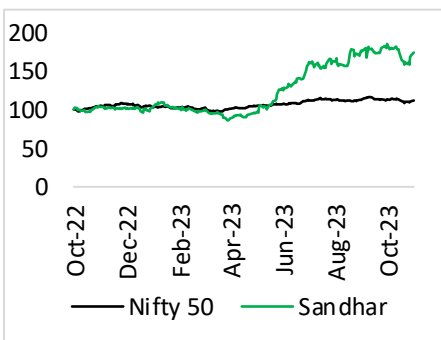
(As on Sept, 2023)

Promoters	70.38
FII	1.35
DII	16.96
Public & Others	11.31

Stock Performance (%)

	1m	3m	12m
Sandhar	2.95	16.01	82.3
Nifty 50	-2.76	-0.60	7.75

Sandhar Vs Nifty 50



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STL's consolidated revenue from operations increased by 18.75% YoY and 6.75% QoQ, reaching INR 885 Cr in Q2FY24, slightly below our estimated INR 889 Cr. EBITDA for the quarter was INR 81.1 Cr against our estimate of INR 75.4 Cr registering a growth of 39.58 % YoY/11.42% QoQ. The company's EBITDA margin expanded by 138bps YoY and 38bps QoQ to 9.17%. Our estimate for the margin was 8.48%. Net profit for the quarter grew by 67.98% YoY and 22.74% QoQ to INR 27.5 Cr against our estimate of INR 28 Cr.

Investment Rationale

Compelling EV expansion: Sandhar is strategically expanding into electric vehicle (EV) components, such as DC-DC converters, MCU, and chargers. These products are set to go into production in Q1FY25. This move positions Sandhar for a strong entry into the growing EV market. The company has also created a dedicated subsidiary called Sandhar Auto Electric Solutions to enhance its position for substantial growth and innovation in the evolving electric vehicle industry.

Smart Locks investment edge: Sandhar's strategic PCB focus for smart locks, secured through exclusive deals with industry giants Honda and Suzuki, promises amplified margins. With a substantial INR 500 Cr order book from Suzuki, this venture offers investors both short-term gains and a lasting foothold in an evolving market, positioning itself as a lucrative opportunity in the smart lock sector.

Promising investment with government incentives: With projections of INR 100 Cr by FY25, the Romania plant aligns with global margins and has a 30% government capital incentive. Already receiving two installments and expecting another, this setup promises robust returns, presenting a strong investment opportunity for growth and profitability.

Sheet Metal expansion prospects: Sandhar Technologies foresees early profitability for its Romania plant. The introduction of new sheet metal projects has resulted in revenue exceeding INR 120 Cr, while current monthly earnings range between INR 15-16 Cr. Efforts across Sandhar's plants are directed at achieving the INR 30 Cr target, signaling substantial growth potential in the company's sheet metal business.

Outlook and valuation

In terms of strategic focus, the company is currently directing efforts toward reducing debt, minimizing costs, maximizing the utilization of already incurred capital expenditures, diversifying the product portfolio, and expanding the customer base. The company anticipates the adoption of smart locks in the market which is expected to be around 10% of the customers' overall output with healthy growth expected in terms of profits and margins flowing from the Romania plant. **We expect Sandhar's revenue, EBITDA, and PAT to grow at a CAGR of 15%, 23%, and 37%, respectively, over FY23-26E and arrive at a Target Price of INR 514 per share (earlier target price of INR 494 per share). Accordingly, we assign a Buy rating on the stock.**

Exhibit 1 : Financial Performance

Year-end March	Net Sales	EBITDA	PAT	EPS	EBITDA	P/E
(INR Cr)	(INR Cr)	(INR Cr)	(INR Cr)	(INR)	Margin (%)	EV/EBITDA
FY22	2,324	206	57	9.5	8.9	13.74
FY23	2,909	249	74	12.2	8.6	11.70
FY24E	3,529	340	128	21.3	9.6	8.87
FY25E	4,066	410	164	27.2	10.1	7.04
FY26E	4,456	459	189	31.4	10.3	6.03

Source: Arihant Research, Company Filings

Exhibit 2 : Quarterly Result(Consolidated)

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	YoY%	QoQ%
Net Sales	884.85	828.90	746.28	18.57	6.75
Material Cost	541.01	508.79	485.80	11.37	6.33
Change in Inventory	1.35	-0.23	-5.42	75.10	487.35
COGS	542.36	508.56	480.37	12.90	6.65
Gross Profit	342.49	320.34	265.91	28.80	6.91
Employees benefits expense	121.18	114.83	97.07	24.84	5.53
Other expenses	140.16	132.68	110.70	26.61	5.64
EBITDA	81.15	72.83	58.14	39.58	11.42
Depreciation	36.86	34.00	29.07	26.77	8.41
EBIT	44.29	38.83	29.06	52.39	14.06
Other Income	3.17	2.80	4.52	-29.90	13.29
Finance costs	12.66	11.36	8.27	53.07	11.44
PBT	34.80	30.27	25.32	37.46	14.97
Tax	7.93	8.10	6.35	25.03	-2.06
Adjusted PAT	26.87	22.17	18.97	41.62	21.19
Non-controlling interests	0.65	0.25	-2.59	74.86	160.44
Reported PAT	27.52	22.42	16.38	67.98	22.74
EPS	4.59	3.74	2.73	67.98	22.74

Margins	Q2FY24	Q1FY24	Q2FY23	YoY (bps)	QoQ (bps)
Gross margins	38.71	38.65	35.63	307	6
EBITDA	9.17	8.79	7.79	138	38
Adjusted PAT	2.57	3.01	2.30	27	-44
Tax Rate	27.00	27.00	25.06	193	0bps
Cost Analysis					
RM/Net Sales	61.29	61.35	64.37	-307	-6
Other Exp/Net Sales	15.84	16.01	14.83	100	-16
Staff cost/Net sales	13.70	13.85	13.01	68	-15

Exhibit 3 : Sales Mix

Sales mix (%)	Q2FY24	Q1FY24	Q2FY23	FY23	FY22
2W	58.9	57	58.17	56	54
PV	19.1	21	18.2	20	21
OHV	14.3	15	14.6	16	16
CV	2.2	2	2.1	2	2
Others	5.4	5	6.4	6	7

Source: Arihant Research, Company Filings

Sandhar Technologies Limited – Q2FY24 Concall KTAs

Sandhar Technologies is on a robust path with 20% income growth, advancing the Romania plant and prepping for Smart Locks and EV products, indicating a promising future.

Financial Highlights

- The consolidated total income for Q2FY24 increased by 18% YoY and 7% QoQ, reaching INR 888 Cr, highlighting substantial growth within a single quarter.
- The company's EBITDA surged by 35% YoY, reaching INR 84.3 Cr in Q2FY24, marking an 11% sequential quarterly growth and emphasizing consistent financial advancement.
- PAT surged by 68% to INR 28 Cr, with a notable 28% QoQ increase, underscoring a significant boost in the company's net income during this quarter.

Joint Ventures and Financial Insights

- Revenues generated from joint ventures have reached INR 151 Cr, signifying a noteworthy turnaround from previous years when some ventures incurred losses.
- Many joint ventures are progressively moving toward profitability, while a couple continue to face challenges due to foreign exchange issues.

Sheet Metal Manufacturing Insights

- The Romania plant is still in its early stages and hasn't reached the break-even point yet, but it's anticipated to become profitable in the coming year.
- Revenue generated from new sheet metal projects in the initial half of the year surpassed INR 120 Cr.
- The Mysore plant only contributed for a single month in the first half, while the other three plants had diverse levels of utilization.
- Initially, the target for peak revenue from the sheet metal business was set at INR 30 Cr per month, based on single-shift operations.
- Current monthly revenue from the sheet metal business spans from INR 15 to INR 16 Cr, with individual plant contributions as follows: Halol at INR 50 Cr, Nalagarh at INR 6.25 Cr to INR 6.5 Cr, and there are ongoing efforts to achieve the target of INR 30 Cr per month.

Anticipated Initiatives

- Sandhar is poised to roll out Smart Locks and EV product lines, with operations scheduled to begin in the forthcoming financial year.
- Key projects such as the Die Casting business and Smart Locks, along with the machining business tailored for TVS, are expected to significantly contribute to growth.

The Romania Plant

- The Romania plant is poised to make positive contributions and is anticipated to achieve mass production levels by FY24-25.
- The expected contributions may reach approximately INR 100 Cr by FY25, with margins aligning with other overseas operations.

Future Outlook

Sandhar Technologies is strategically focused on smart locks, EV products, operational efficiency, debt reduction, and maximizing CAPEX use to ensure continuous expansion. Their core strategies involve integrating plants, diversifying products, with an anticipated surge driven by the Romania plant's mass production in FY24-25, indicating a promising outlook for accelerated growth.

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta	0.7
CMP (INR)	425

WACC

We	86.1%
Wd	13.9%
Ke	11.2%
Kd	6.5%
WACC	10.59%

Valuation Data

Total Debt (long term borrowings) (2023)	412
Cash & Cash Equivalents (2023)	9
Number of Diluted Shares (2023)	6
Tax Rate (2024)	25%
Interest Expense Rate (2024)	9%

MV of Equity	2,558
Total Debt	412
Total Capital	2,971

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
EBIT * (1-Tax Rate)	145	183	207	257	302	354	407	458	504	543	572	590
Dep	147	166	182	199	219	240	275	310	341	368	387	399
Purchase of Assets	365	193	223	239	269	294	337	379	418	450	474	489
Changes in Working Capital	(13)	9	2	10	8	10	11	12	14	15	16	16
FCFF	(61)	146	164	207	243	291	334	376	414	446	470	484
% Growth in Post Tax EBIT		26.6%	13.3%	23.9%	17.7%	17.3%	14.9%	12.5%	10.1%	7.8%	5.4%	3.0%
As % of Post Tax EBIT												
Dep	101.7%	90.8%	87.8%	77.6%	72.4%	67.7%	67.7%	67.7%	67.7%	67.7%	67.7%	67.7%
Purchase of Assets	252.6%	105.6%	107.5%	93.1%	89.2%	82.9%	82.9%	82.9%	82.9%	82.9%	82.9%	82.9%
Changes in Working Capital	-9.0%	5.2%	1.2%	3.8%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%	2.7%
FCFF												
Terminal Value	(61)	146	164	207	243	291	334	376	414	446	470	484
												6,374
Total Cash Flow	(61)	146	164	207	243	291	334	376	414	446	470	6,857

Enterprise Value (EV)	3,498
Less: Debt	412
Add: Cash	9
Equity Value	3,094
Equity Value per share (INR)	514
% Returns	21.0%
Rating	BUY

WACC (%)	g%)										
	514	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	
9.59%	555	570	587	604	623	643	664	688	714		
9.84%	531	545	560	575	592	611	630	652	675		
10.09%	508	521	534	549	564	581	599	618	639		
10.34%	486	498	511	524	538	554	570	588	607		
10.59%	466	477	489	501	514	528	543	559	576		
10.84%	447	457	468	479	491	504	518	533	548		
11.09%	429	438	448	459	470	482	495	508	523		
11.34%	412	421	430	440	450	461	473	485	498		
11.59%	396	404	413	422	432	442	452	464	476		

Source: Company reports, Aриhant Capital Research

Story in charts (INR in Cr)

Exhibit 4 : Entry into new sectors accelerates revenue, surpassing two-wheeler industry trends

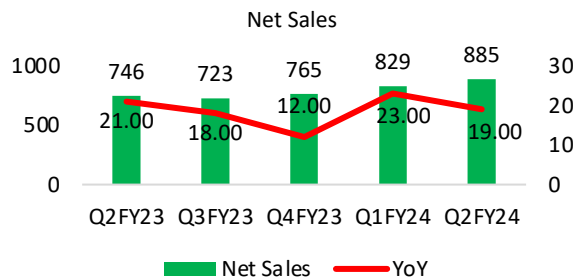


Exhibit 5: Effectively implement cost control strategies to improve EBITDA margins

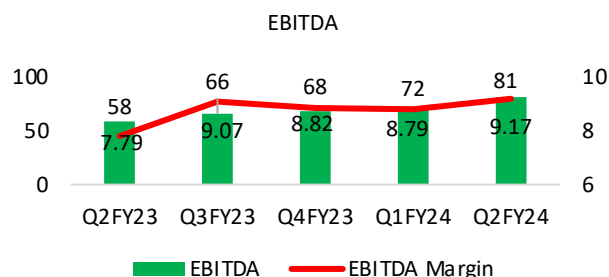


Exhibit 6: Net profit increased as joint ventures are progressively moving toward profitability

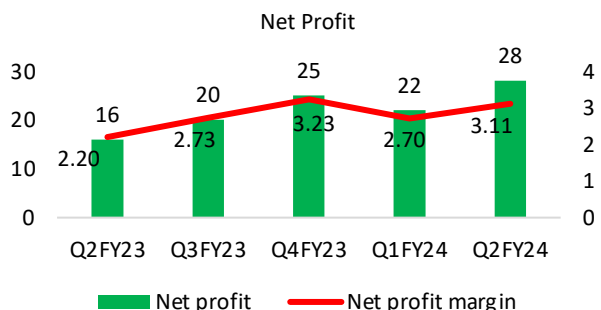


Exhibit 7: EPS trajectory on positive momentum

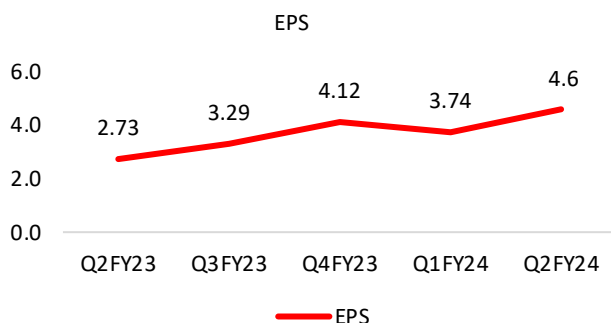


Exhibit 8: Diversified products segments with Locking systems and ADC Domestic exhibiting strong performance

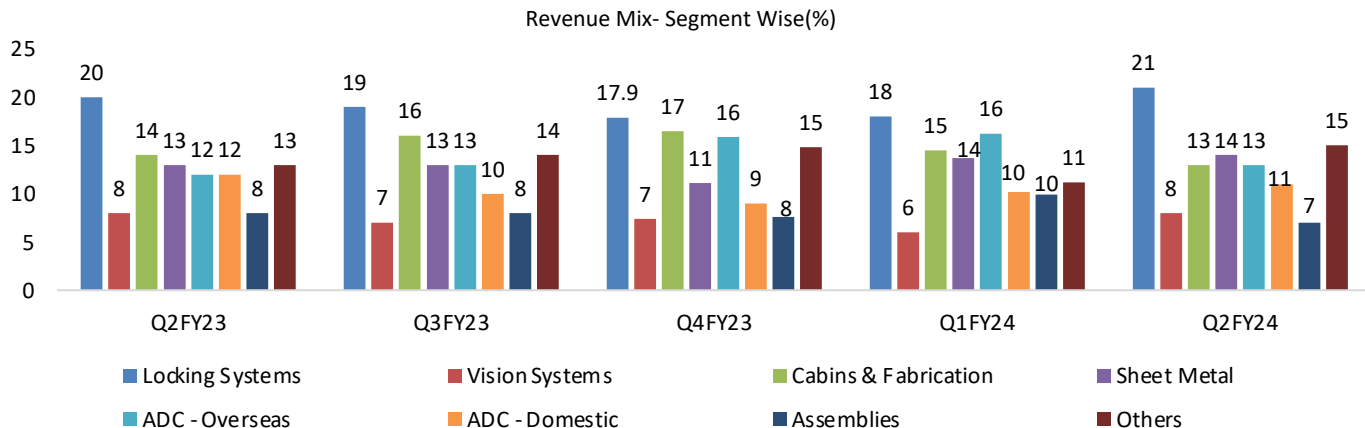
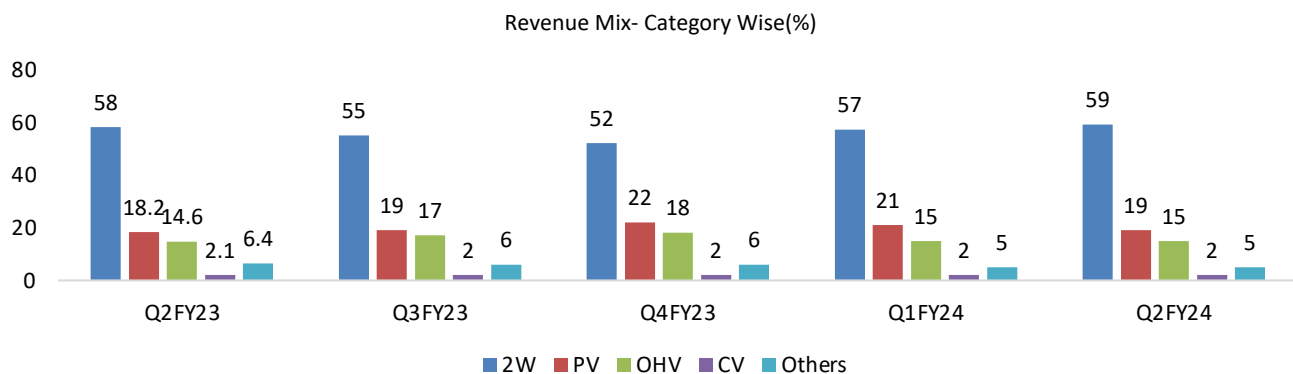


Exhibit 9: Striving to become a leading player particularly in the two-wheeler segment



Source: Company, Arianth Research

Key Financials

Income statement (INR Cr)						Balance sheet (INR Cr)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E	Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	2,324	2,909	3,529	4,066	4,456	Sources of Funds					
YoY (%)	24.7	25.2	21.3	15.2	9.6	Equity Share Capital	60	60	60	60	60
Adjusted RMC	1416	1827	2140	2463	2697	Reserves & Surplus	803	865	981	1,127	1,292
YoY (%)	29.6	29.0	17.1	15.1	9.5	Net worth	863	925	1,041	1,187	1,352
Personnel/ Employee benefit expenses	318	385	488	564	614	Unsecured Loans/ Borrowings/ Lease Liabilities	330	406	362	314	261
Manufacturing & other expts	383	448	564	631	688	Total Debt	331	412	367	318	264
YoY (%)	14.6	20.8	26.8	15.5	9.0	Total Funds Employed	1,973	2,140	2,354	2,592	2,804
Total Expenditure	2118	2660	3191	3658	3999	Application of Funds					
YoY (%)	26.4	25.6	20.0	14.6	9.3	Gross block	1,434	1,766	2,116	2,309	2,532
EBITDA	206	249	340	410	459	Less: depreciation	453	575	722	888	1070
YoY (%)	9.4	20.9	36.5	20.7	11.8	Net Fixed Assets	981	1,191	1,394	1,422	1,462
EBITDA Margin (%)	8.9	8.6	9.6	10.1	10.3	Capital WIP	89	95	100	105	110
Depreciation	100	122	147	166	182	Investments	53	49	59	69	79
% of Gross Block	7.0	6.9	6.9	7.2	7.2	Current assets	850	804	801	996	1,152
EBIT	106	128	193	244	277	Inventory	260	300	369	425	466
EBIT Margin (%)	4.6	4.4	5.5	6.0	6.2	Debtors	445	355	431	497	544
Interest Expenses	18	36	36	32	28	Other Current Assets	140	143	150	157	165
PBT	95	104	172	225	259	Bank	3	1	3	3	3
Tax-Total	25.5	26.8	43.1	60.6	70.0	Cash	2	5	(152)	(86)	(26)
Adj. Net Profit	70	78	128	164	189	Current Liabilities/Provisions	770	785	924	1,062	1,160
Reported Profit	57	74	128	164	189	Creditors / Trade Payables	398	412	482	555	606
PAT Margin	2.5	2.5	3.6	4.0	4.2	Liabilities	362	360	428	493	539
Adj EPS	11.6	12.9	21.3	27.2	31.4	Provisions	10	13	13	14	15
Dividend Payout	9.3	9.9	12.0	18.1	24.1	Net Current Assets	80	19	-123	-66	-9
Retained Earnings	48	64	116	146	165	Deferred Tax Asset	-12	6	6	6	6
						Total Asset	1,973	2,140	2,354	2,592	2,804
						Total Capital Employed	1,204	1,355	1,431	1,530	1,650

Cash Flow Statement (INR Cr)						Key Ratios					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E	Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	81	100	172	225	259	Solvency Ratios					
Depreciation and amortization	100	122	147	166	182	Debt / Equity	0.38	0.45	0.35	0.27	0.20
Interest adjustment	18	36	36	32	28	Net Debt / Equity	0.32	0.39	0.44	0.28	0.15
Adjustments: Less						Debt / EBITDA	1.60	1.66	1.08	0.77	0.58
Interest income on fixed income securities	-1.13	-1.13	0.00	0.00	0.00	Current Ratio	1.10	1.02	0.87	0.94	0.99
Profit/(loss) on sale of investments, net	-0.71	-0.21	-0.71	-0.71	-0.71	DuPont Analysis					
Change in assets & liabilities	210	257	361	429	475	Sales/Assets	1.95	2.18	2.51	2.70	2.76
Inventories	-48.33	-40.75	-68.88	-55.85	-40.38	Assets/Equity	2.29	2.31	2.26	2.18	2.07
Trade receivables	-50.16	89.85	-75.75	-65.56	-47.62	ROE(%)	8.08	8.38	12.34	13.81	14.00
Trade payables	0.76	23.49	70.51	72.93	50.75	Per share ratios					
Other Liabilities and provisions	-5.04	30.56	68.29	65.39	47.50	Reported EPS	9.48	12.23	21.34	27.23	31.45
Other Assets	39.21	24.40	7.13	7.49	7.86	Dividend per share	1.55	1.65	2.00	3.00	4.00
Net cash from operating activities	49	308	305	378	408	BV per share	143.35	153.66	173.00	197.23	224.68
Net Sale/(Purchase) of tangible and intangible assets, Capital WIP	295.97	250.15	354.92	198.3	228.4	Profitability ratios					
Net Sale/(Purchase) of investments	18.96	0.52	9.01	9.01	9.01	Net Profit Margin (PAT/Net sales)	3.00	2.66	3.64	4.03	4.25
Net cash (used) in investing activities	311.2	247.5	363.9	207.1	237.0	Gross Profit / Net Sales	39.07	37.20	39.37	39.41	39.46
Interest expense	-17.47	-35.02	-35.77	-31.84	-27.58	EBITDA / Net Sales	8.87	8.56	9.63	10.09	10.30
Dividend paid	-6.08	-13.57	-12.04	-18.06	-24.08	PAT / Net Sales	2.45	2.53	3.64	4.03	4.25
Net cash (used) in financing activities	259.72	-36.8	-93.09	-99.11	-105.1	ROCE (%)	8.81	9.41	13.49	15.98	16.78
Closing Balance	2	5	-152	-86	-26	Activity ratios					
FCF	-247	58	-50	179	180	Inventory Days	66.95	60.03	63.00	63.00	63.00
Capex (% of sales)	12.7	8.6	10.1	4.8	5.0	Debtor Days	69.96	44.59	44.59	44.59	44.59
						Creditor Days	102.55	82.27	82.27	82.27	82.00
						Valuation ratios					
						EV / EBITDA	13.74	11.70	8.87	7.04	6.03
						EV / EBIT	26.70	22.85	15.62	11.83	9.99
						EV/ Net Sales	1.22	1.00	0.85	0.71	0.62
						P/E based Valuation					
						EPS	9.48	12.23	18.35	25.53	34.04
						CMP	226.00	425.00	425.00	425.00	425.00
						PE (x)	23.85	34.76	19.92	15.61	13.52

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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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