

Sandhar Technologies

Accumulate

DART

DOLAT ANALYSIS & RESEARCH THEMES
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Well poised to ride the 2W recovery

- Sandhar Technologies' Q4FY20 results were in line with our estimates. Consolidated revenue de-grew 31% YoY to Rs 4.08bn led by slowdown in 2W and OHV business.
- Consolidated EBITDA de-grew 44% to Rs 389mn with margin of 9.5% (-230bps YoY) due to negative operating leverage.
- We believe Sandhar would be a key beneficiary of quicker recovery in 2W led by rise in rural demand. 2W contributes 60% of overall revenue and major revenue comes from Hero and TVS Motors.
- Performance of the Barcelona subsidiary has improved in FY20. Revenue remain flat YoY and EBITDA margin improved to 12.7% (vs 10.3% YoY), due to new order wins, cost cutting measures and economies of scale.
- Despite the fall in revenue, management expect margin would be same level as FY20 led by cost cutting programs.
- Sandhar is not planning to incur any major capex over the next 24 months, which will help generate decent FCF.
- We roll forward our estimates to FY23E and forecast a 11% EPS CAGR over FY20-23E. We recommend Accumulate rating with a TP of Rs 221 (17x FY23E EPS).

Recovery is expected from Q2FY21

We believe earnings are likely to improve gradually from Q2FY21, driven by revival in 2W volume, increase in content per vehicle in Locks and Mirrors division. However, OHT segment is likely to underperform due to muted demand for construction vehicle. Going ahead, Sandhar intends to focus more on offering high value-added products, such as rear-parking sensors, tyre pressure monitors and smart helmets, together with expansion in customer base and increase in the wallet share from existing OEM customers. The company remains upbeat about the growth prospects in the Die Casting business and expects it to grow at 15% CAGR over 2-3 years.

Q4FY20 Consolidated Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	4,086	5,908	(30.8)	4,802	(14.9)
Total Expense	3,697	5,210	(29.0)	4,305	(14.1)
EBITDA	389	698	(44.3)	498	(21.9)
Depreciation	246	204	20.1	247	(0.5)
EBIT	143	494	(71.0)	251	(42.9)
Other Income	49	29	68.3	27	79.2
Interest	47	60	(21.3)	45	4.7
EBT	145	455	(68.2)	233	(37.8)
Tax	25	154	(84.0)	65	(62.0)
RPAT	121	268	(54.9)	138	(12.0)
APAT	121	276	(56.1)	138	(12.0)
			(bps)		(bps)
Gross Margin (%)	45.1	41.1	405	43.1	203
EBITDA Margin (%)	9.5	11.8	(230)	10.4	(85)
NPM (%)	3.0	4.5	(158)	2.9	10
Tax Rate (%)	17.0	33.7	(1673)	27.8	(1078)
EBIT Margin (%)	3.5	8.4	(485)	5.2	(172)

CMP	Rs 193
Target / Upside	Rs 221 / 15%
BSE Sensex	35,382
NSE Nifty	10,430

Scrip Details

Equity / FV	Rs 602mn / Rs 10
Market Cap	Rs 12bn
	USD 154mn
52-week High/Low	Rs 302/Rs 125
Avg. Volume (no)	16,089
NSE Symbol	SANDHAR
Bloomberg Code	SANDHAR IN

Shareholding Pattern Mar'20(%)

Promoters	70.3
MF/Banks/FIs	15.7
FII's	2.7
Public / Others	11.3

Valuation (x)

	FY21E	FY22E	FY23E
P/E	63.1	23.6	14.8
EV/EBITDA	9.8	7.1	5.4
ROE (%)	2.5	6.4	9.2
RoACE (%)	4.3	7.2	9.2

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	15,877	18,751	22,087
EBITDA	1,410	1,872	2,328
PAT	184	493	782
EPS (Rs.)	3.1	8.2	13.0

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DOLAT CAPITAL

JV Performance

Losses of JV companies increased from Rs 69mn in FY19 to Rs 95mn in FY20, of which 60% is attributed to the helmets and headgears JV (Sandhar Amkin) due to competitive challenges. However, revenue contribution of JVs is expected to improve significantly and expected break even at EBITDA level in FY21 and reduce losses due to economies of scale and new orders from OEMs.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Comment
Revenue	4,086	4,130	(1)	
EBIDTA	389	373	4	
EBIDTA Margin (%)	9.5	9.0	48bps	NA
APAT	121	113	7	

Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY21E			FY22E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	15,877	18,196	(12.7)	18,751	20,103	(6.7)
EBITDA	1,410	1,764	(20.1)	1,872	2,045	(8.4)
EBITDA margin(%)	8.9	9.7	(81)bps	10.0	10.2	(19)bps
APAT	184	456	(59.6)	493	691	(28.7)
EPS	3.1	7.6	(59.6)	8.2	11.5	(28.7)

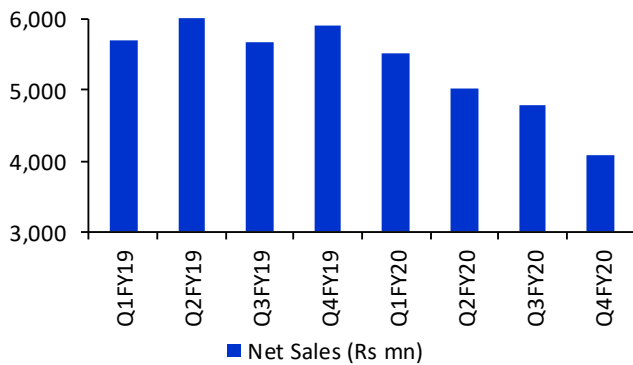
Source: DART, Company

Exhibit 3: Assumption Sheet

	FY19	FY20	FY21	FY22E	FY23E
Locking Systems	5,053	4,088	3,557	4,268	5,122
<i>Growth (% YoY)</i>		(19)	(13)	20	20
Vision Systems	2,440	1,749	1,487	1,858	2,230
<i>Growth (% YoY)</i>		(28)	(15)	25	20
Sheet Metal Components	2,935	2,243	1,683	2,019	2,423
<i>Growth (% YoY)</i>		(24)	(25)	20	20
Cabins & Fabricators	2,896	2,373	1,779	2,224	2,780
<i>Growth (% YoY)</i>		(18)	(25)	25	25
Aluminium Die Casting	3,810	3,734	3,174	3,554	3,981
<i>Growth (% YoY)</i>		(2)	(15)	12	12
Assemblies	3,453	3,076	2,461	2,830	3,254
<i>Growth (% YoY)</i>		(11)	(20)	15	15
Others	2,820	2,171	1,737	1,997	2,297
<i>Growth (% YoY)</i>		(23)	(20)	15	15
Total	23,406	19,434	15,877	18,751	22,087
<i>Growth (% YoY)</i>		(17)	(18)	18	18

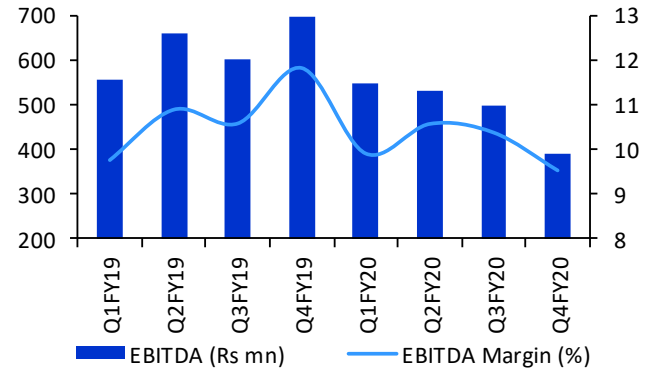
Source: Company, DART

Exhibit 4: Consolidated Net Revenue (Rs mn)



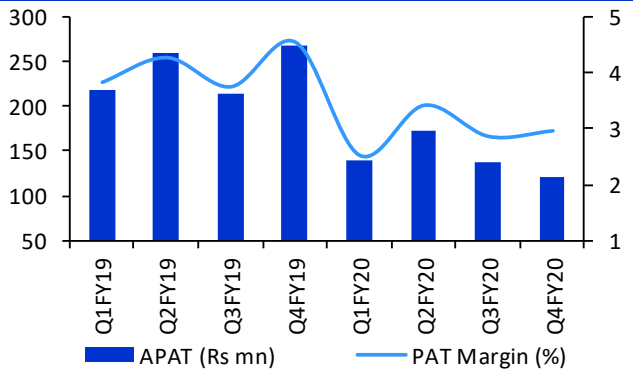
Source: Company, DART

Exhibit 5: EBITDA (Rs mn) and EBITDA Margin



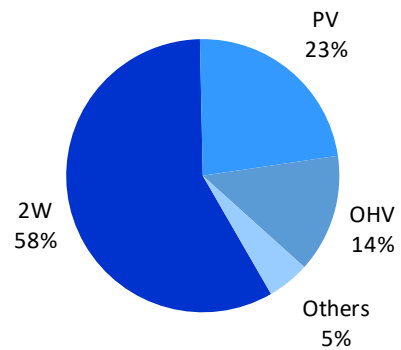
Source: Company, DART

Exhibit 6: APAT (Rs mn) vs PAT Margin



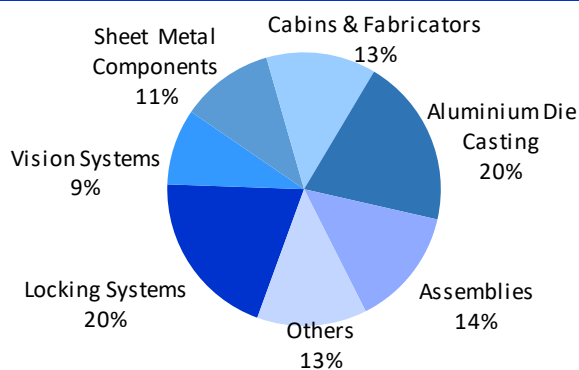
Source: Company, DART

Exhibit 7: Segment wise Revenue mix (Q4FY20)



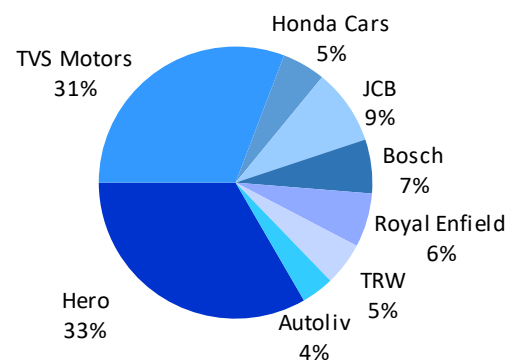
Source: Company, DART

Exhibit 8: Product wise Revenue (Q4FY20)



Source: Company, DART

Exhibit 9: Customer wise Revenue (Q4FY20)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	19,434	15,877	18,751	22,087
Total Expense	17,470	14,467	16,879	19,759
COGS	11,136	9,050	10,782	12,700
Employees Cost	2,909	2,560	2,816	3,238
Other expenses	3,426	2,858	3,281	3,821
EBIDTA	1,964	1,410	1,872	2,328
Depreciation	984	989	1,042	1,095
EBIT	980	421	830	1,233
Interest	205	202	210	233
Other Income	100	90	95	96
Exc. / E.O. items	0	0	0	0
EBT	875	308	715	1,096
Tax	211	74	172	264
RPAT	570	184	493	782
Minority Interest	0	0	0	0
Profit/Loss share of associates	(95)	(50)	(50)	(50)
APAT	570	184	493	782

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	602	602	602	602
Minority Interest	36	36	36	36
Reserves & Surplus	7,023	6,775	7,454	8,331
Net Worth	7,625	7,377	8,056	8,933
Total Debt	2,647	2,347	2,847	2,947
Net Deferred Tax Liability	175	175	175	175
Total Capital Employed	10,483	9,936	11,114	12,091

Applications of Funds

Net Block	8,313	7,724	7,382	7,087
CWIP	330	330	330	230
Investments	480	660	860	760
Current Assets, Loans & Advances	4,536	4,334	6,097	8,027
Inventories	1,957	1,488	1,802	2,192
Receivables	1,919	2,218	2,620	3,086
Cash and Bank Balances	75	150	1,110	2,083
Loans and Advances	279	228	269	317
Other Current Assets	306	250	296	348
Less: Current Liabilities & Provisions	3,176	3,112	3,554	4,012
Payables	2,401	2,479	2,806	3,132
Other Current Liabilities	775	633	748	881
		sub total		
Net Current Assets	1,360	1,222	2,543	4,015
Total Assets	10,483	9,936	11,114	12,091

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.7	43.0	42.5	42.5
EBIDTA Margin	10.1	8.9	10.0	10.5
EBIT Margin	5.0	2.7	4.4	5.6
Tax rate	24.1	24.1	24.1	24.1
Net Profit Margin	2.9	1.2	2.6	3.5
(B) As Percentage of Net Sales (%)				
COGS	57.3	57.0	57.5	57.5
Employee	15.0	16.1	15.0	14.7
Other	17.6	18.0	17.5	17.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.4	0.3
Interest Coverage	4.8	2.1	3.9	5.3
Inventory days	37	34	35	36
Debtors days	36	51	51	51
Average Cost of Debt	7.7	8.1	8.1	8.0
Payable days	45	57	55	52
Working Capital days	26	28	49	66
FA T/O	2.3	2.1	2.5	3.1
(D) Measures of Investment				
AEPS (Rs)	9.5	3.1	8.2	13.0
CEPS (Rs)	25.8	19.5	25.5	31.2
DPS (Rs)	2.0	0.6	1.7	2.7
Dividend Payout (%)	21.1	21.1	21.1	21.1
BVPS (Rs)	126.7	122.6	133.8	148.4
RoANW (%)	7.7	2.5	6.4	9.2
RoACE (%)	8.5	4.3	7.2	9.2
RoAIC (%)	9.6	4.2	8.4	12.3
(E) Valuation Ratios				
CMP (Rs)	193	193	193	193
P/E	20.4	63.1	23.6	14.8
Mcap (Rs Mn)	11,617	11,617	11,617	11,617
MCap/ Sales	0.6	0.7	0.6	0.5
EV	14,188	13,813	13,354	12,480
EV/Sales	0.7	0.9	0.7	0.6
EV/EBITDA	7.2	9.8	7.1	5.4
P/BV	1.5	1.6	1.4	1.3
Dividend Yield (%)	1.0	0.3	0.9	1.4
(F) Growth Rate (%)				
Revenue	(16.8)	(18.3)	18.1	17.8
EBITDA	(21.9)	(28.2)	32.8	24.3
EBIT	(42.6)	(57.0)	97.3	48.5
PBT	(42.5)	(64.8)	131.8	53.4
APAT	(41.0)	(67.7)	167.6	58.8
EPS	(41.0)	(67.7)	167.6	58.8
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,390	1,639	1,434	1,662
CFI	(1,875)	(548)	(787)	(880)
CFF	(378)	(934)	475	(38)
FCFF	580	1,239	734	962
Opening Cash	48	75	150	1,110
Closing Cash	75	150	1,110	2,083

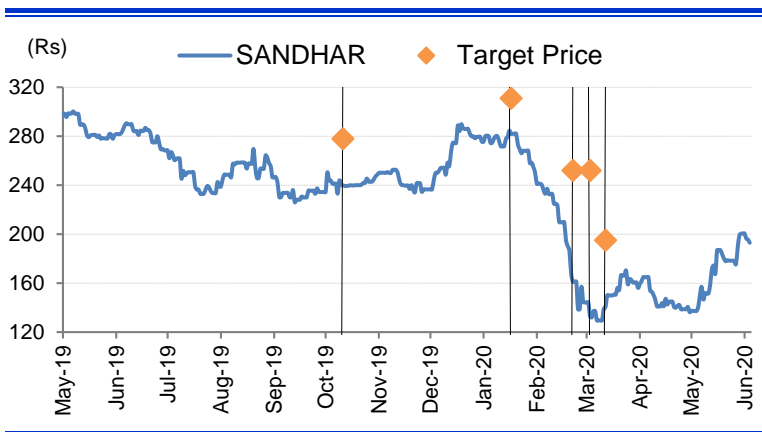
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	278	240
Feb-20	Accumulate	311	282
Mar-20	Buy	252	161
Mar-20	Buy	252	133
Apr-20	Buy	195	140

*Price as on recommendation date

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