

On its road to recovery...

- Sandhar's consolidated revenue de-grew 77% YoY to Rs 1.3bn, impacted by low production by OEMs due to lockdown across the nation. Consolidated EBITDA loss was at Rs 127mn due to negative operating leverage
- The current inventory is below normal and the company to accelerate production ahead of the festive season. Operations have reached 85-90% of pre-Covid levels. As Hero and TVS Motors account for ~52% of overall revenue, we believe Sandhar would be a key beneficiary of quicker recovery in 2W led by rise in rural demand.
- In addition, increase in content per vehicle (Locking systems) and expansion in the product base with new order wins will augur well for the topline growth. Sandhar is also in advanced level discussions with new customers (for supplying ADC and electronic components), which will help de-risk client concentration and diversify its revenue base.
- The company has taken several cost control measures which will lead to reduction of fixed costs by 20%. Despite the fall in revenue, management expects margin to sustain at FY20 levels with effective working capital management and cost control measures.
- We anticipate a 17% EPS CAGR over FY20-23E and recommend Buy rating with a TP of Rs 269 (18x FY23E EPS).

Recovery is expected from Q2FY21

We believe earnings are likely to improve from Q2FY21, driven by 1) revival in 2W volumes 2) increase in content per vehicle in the Locks and Mirrors division 3) recovery in cabin and fabrication business 4) ramp up in Aluminum die casting business and 5) cost cutting initiatives. Moreover, introduction of new products like 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 will also aid revenue in the medium term. The company remains upbeat about the growth prospects in the Aluminum Die Casting business with expansion of its product base and new clientele and expects it to grow at 15% CAGR over 2-3 years.

Q1FY21 Consolidated Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1,294	5,517	(76.6)	4,086	(68.3)
Total Expense	1,420	4,971	(71.4)	3,697	(61.6)
EBITDA	(127)	546	(123.2)	389	(132.6)
Depreciation	215	246	(12.4)	246	(12.2)
EBIT	(342)	300	(214.0)	143	(338.8)
Other Income	7	13	(45.5)	49	(85.1)
Interest	31	56	(45.4)	47	(35.3)
EBT	(365)	257	(242.0)	145	(352.1)
Tax	(90)	87	(203.4)	25	(464.4)
RPAT	(310)	139	(322.8)	121	(356.4)
APAT	(310)	139	(322.8)	121	(356.4)
			(bps)		(bps)
Gross Margin (%)	46.8	41.2	553	45.1	167
EBITDA Margin (%)	(9.8)	9.9	(1970)	9.5	(1932)
NPM (%)	(24.0)	2.5	(2652)	3.0	(2695)
Tax Rate (%)	24.6	33.7	(917)	17.0	757
EBIT Margin (%)	(26.5)	5.4	(3189)	3.5	(2996)

CMP	Rs 218
Target / Upside	Rs 269 / 23%
BSE Sensex	38,545
NSE Nifty	11,385

Scrip Details

Equity / FV	Rs 602mn / Rs 10
Market Cap	Rs 13bn
	USD 176mn
52-week High/Low	Rs 302/Rs 125
Avg. Volume (no)	25,446
NSE Symbol	SANDHAR
Bloomberg Code	SANDHAR IN

Shareholding Pattern Jun'20(%)

Promoters	70.3
MF/Banks/FIs	15.6
FIIIs	3.6
Public / Others	10.6

Valuation (x)

	FY21E	FY22E	FY23E
P/E	42.8	20.5	14.6
EV/EBITDA	9.5	7.1	5.6
ROE (%)	4.0	8.0	10.1
RoACE (%)	5.5	8.1	9.7

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	15,833	18,855	21,984
EBITDA	1,589	2,049	2,434
PAT	307	642	899
EPS (Rs.)	5.1	10.7	14.9

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JV Performance

For Q1FY21, JVs reported PAT loss of Rs 35mn. 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 for helmets and headgears (Sandhar Amkin). Sandhar Whetron (parking sensors) is in advanced stage of discussion and approvals with OEMs which have been delayed due to Covid and expect revenue inflow from FY22.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Comment
Revenue	1,294	1,655	(22)	Lower than anticipated production level.
EBIDTA	(127)	(161)	(21)	
EBIDTA Margin (%)	(9.8)	(9.7)	(7)bps	
APAT	(310)	(365)	(15)	

Source: DART, Company

Exhibit 2: Change in Estimates

Rs Mn	FY21E			FY22E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	15,833	15,877	(0.3)	18,855	18,751	0.6
EBITDA	1,589	1,410	12.7	2,049	1,872	9.4
EBITDA margin(%)	10.0	8.9	116bps	10.9	10.0	88bps
APAT	307	184	66.7	642	493	30.3
EPS	5.1	3.1	66.7	10.7	8.2	30.3

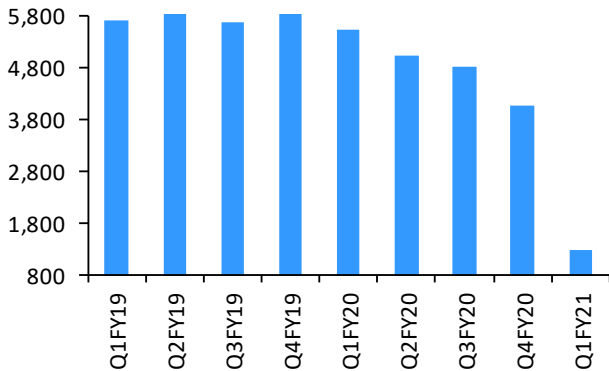
Source: DART, Company

Exhibit 3: Assumption Sheet

	FY19	FY20	FY21E	FY22E	FY23E
Locking Systems	5,053	4,088	3,557	4,339	4,990
(% YoY)		(19)	(13)	22	15
Vision Systems	2,440	1,749	1,487	1,858	2,230
(% YoY)		(28)	(15)	25	20
Sheet Metal Components	2,935	2,243	1,683	2,019	2,322
(% YoY)		(24)	(25)	20	15
Cabins & Fabricators	2,896	2,373	1,661	2,076	2,595
(% YoY)		(18)	(30)	25	25
Aluminium Die Casting	3,810	3,734	3,248	3,736	4,296
(% YoY)		(2)	(13)	15	15
Assemblies	3,453	3,076	2,461	2,830	3,254
(% YoY)		(11)	(20)	15	15
Others	2,820	2,171	1,737	1,997	2,297
(% YoY)		(23)	(20)	15	15
Total	23,406	19,434	15,833	18,855	21,984
(% YoY)	20	(17)	(19)	19	17

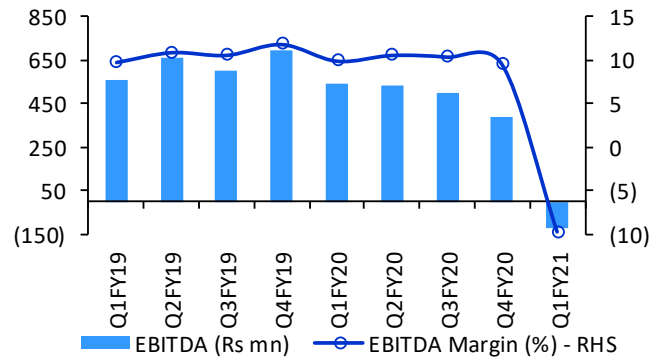
Source: Company, DART

Exhibit 4: Consolidated Net Revenue (Rs mn)



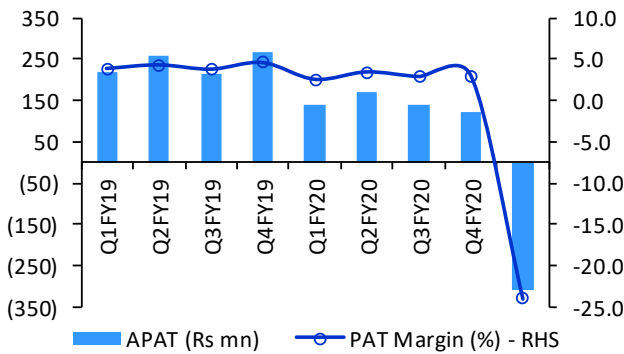
Source: Company, DART

Exhibit 5: EBITDA (Rs mn) and EBITDA Margin



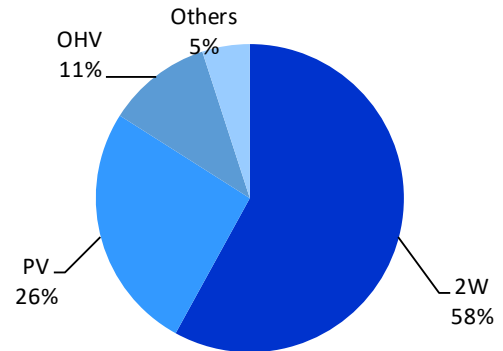
Source: Company, DART

Exhibit 6: APAT (Rs mn) vs PAT Margin



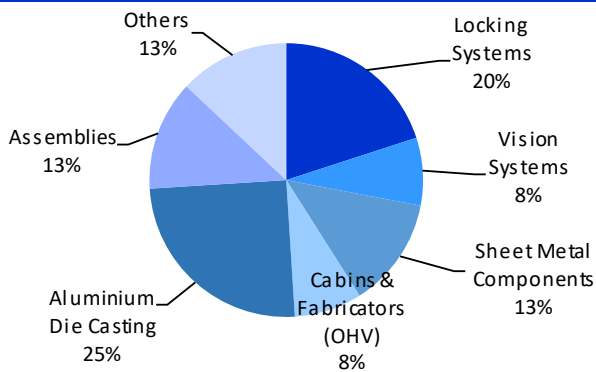
Source: Company, DART

Exhibit 7: Segment wise Revenue mix (Q1FY21)



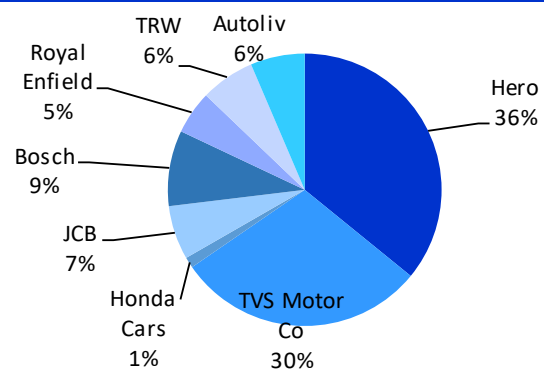
Source: Company, DART

Exhibit 8: Product wise Revenue (Q1Y21)



Source: Company, DART

Exhibit 9: Customer wise Revenue (Q1FY21)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	19,434	15,833	18,855	21,984
Total Expense	17,470	14,244	16,806	19,550
COGS	11,136	9,025	10,785	12,575
Employees Cost	2,909	2,560	2,816	3,238
Other expenses	3,426	2,660	3,205	3,737
EBIDTA	1,964	1,589	2,049	2,434
Depreciation	984	989	1,042	1,095
EBIT	980	600	1,007	1,339
Interest	205	226	237	238
Other Income	100	90	95	96
Exc. / E.O. items	0	0	0	0
EBT	875	464	866	1,197
Tax	211	112	208	288
RPAT	570	307	642	899
Minority Interest	0	0	0	0
Profit/Loss share of associates	(95)	(45)	(15)	(10)
APAT	570	307	642	899

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	6,990	7,808	8,739
Net Worth	7,625	7,592	8,410	9,341
Total Debt	2,647	2,647	2,897	2,647
Net Deferred Tax Liability	175	175	175	175
Total Capital Employed	10,483	10,451	11,518	12,200

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	4,841	6,505	8,100
Inventories	1,957	1,483	1,802	2,170
Receivables	1,919	2,212	2,635	3,072
Cash and Bank Balances	75	668	1,500	2,196
Loans and Advances	279	227	271	316
Other Current Assets	306	250	297	347
Less: Current Liabilities & Provisions	3,176	3,104	3,559	3,977
Payables	2,401	2,472	2,807	3,101
Other Current Liabilities	775	631	752	877
sub total				
Net Current Assets	1,360	1,737	2,946	4,123
Total Assets	10,483	10,451	11,518	12,200

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.7	43.0	42.8	42.8
EBIDTA Margin	10.1	10.0	10.9	11.1
EBIT Margin	5.0	3.8	5.3	6.1
Tax rate	24.1	24.1	24.1	24.1
Net Profit Margin	2.9	1.9	3.4	4.1
(B) As Percentage of Net Sales (%)				
COGS	57.3	57.0	57.2	57.2
Employee	15.0	16.2	14.9	14.7
Other	17.6	16.8	17.0	17.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.3	0.3
Interest Coverage	4.8	2.7	4.3	5.6
Inventory days	37	34	35	36
Debtors days	36	51	51	51
Average Cost of Debt	7.7	8.5	8.5	8.6
Payable days	45	57	54	51
Working Capital days	26	40	57	68
FA T/O	2.3	2.0	2.6	3.1
(D) Measures of Investment				
AEPS (Rs)	9.5	5.1	10.7	14.9
CEPS (Rs)	25.8	21.5	28.0	33.1
DPS (Rs)	2.0	1.1	2.3	3.2
Dividend Payout (%)	21.1	21.1	21.1	21.1
BVPS (Rs)	126.7	126.1	139.7	155.2
RoANW (%)	7.7	4.0	8.0	10.1
RoACE (%)	8.5	5.5	8.1	9.7
RoAIC (%)	9.6	5.9	10.2	13.4
(E) Valuation Ratios				
CMP (Rs)	218	218	218	218
P/E	23.1	42.8	20.5	14.6
Mcap (Rs Mn)	13,139	13,139	13,139	13,139
MCap/ Sales	0.7	0.8	0.7	0.6
EV	15,711	15,118	14,536	13,590
EV/Sales	0.8	1.0	0.8	0.6
EV/EBITDA	8.0	9.5	7.1	5.6
P/BV	1.7	1.7	1.6	1.4
Dividend Yield (%)	0.9	0.5	1.0	1.4
(F) Growth Rate (%)				
Revenue	(16.8)	(18.5)	19.1	16.6
EBITDA	(21.9)	(19.1)	29.0	18.8
EBIT	(42.6)	(38.8)	67.9	32.9
PBT	(42.5)	(47.0)	86.7	38.3
APAT	(41.0)	(46.1)	109.2	40.0
EPS	(41.0)	(46.1)	109.2	40.0
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,390	1,783	1,559	1,761
CFI	(1,875)	(548)	(787)	(880)
CFF	(378)	(566)	188	(455)
FCFF	580	1,383	859	1,061
Opening Cash	48	75	668	1,500
Closing Cash	75	668	1,500	2,196

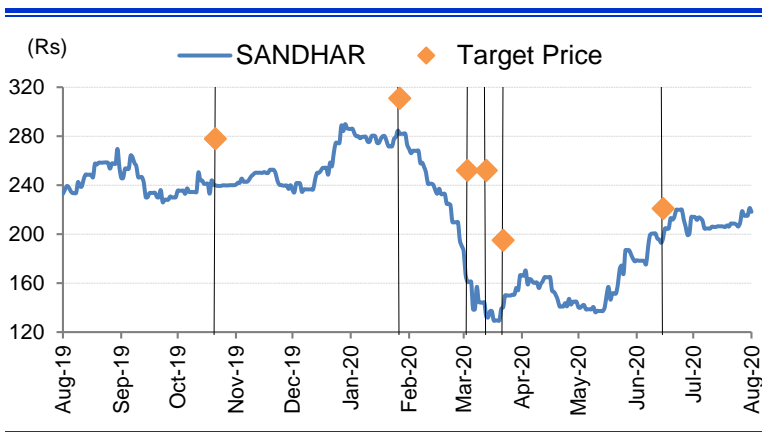
E – Estimates

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
Jul-20	Accumulate	221	197

*Price as on recommendation date

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