

Buy

Multiple growth levers

- Sandhar reported strong EBITDA growth (+38% YoY) led by strong operating leverage, cost control measures and healthy subsidiary performance. Consolidated revenue grew 23.5% YoY led by strong growth in Cabin and Fabrication, Sheet Metal and ADC business.
- Recovery in 2W volume, pick up in infra and construction business, strong traction in ADC business, exponential growth in aftermarket and increase in content per vehicle are key earning drivers in the near to medium term.
- For Vision and Locking systems, increasing presence in the scooter segment, winning new business with improving share of high value products and premiumization to aid revenue growth and margin expansion. The company has received orders for mirrors for newly launched RE Meteor and TVS Motors.
- ADC business is also showing impressive recovery led by addition of new components and several new clientele in the domestic 2Ws. Sandhar is increasing its presence in 4W segment and is under process of cementing business with leading 4W OEMs in the domestic market. This will help the company diversify and de-risk its revenue concentration from 2Ws.
- Cabin and fabrication business has seen sharp recovery in Q3FY21 (+54% YoY) led by pick up in infra and construction activities and new business orders from Hyundai Constructions and Samy Constructions. In the Assembly segment as well, company is increasing its SOB from RE and TVS and has procured orders from leading 4W players.
- The international subsidiaries are also witnessing sharp improvement Topline grew 7.4% YoY to Rs 832mn with margin expansion of 360bps to 14.3%. Management expects healthy order growth for the Barcelona subsidiary. Bosch (one of their largest customers) has awarded new business in Romania which will attribute to incremental revenues of Euro 10mn over 2 years with healthy margins of +20%.
- We anticipate a 58% EPS CAGR over FY21-23E and maintain our Buy rating with a TP of Rs 396 (18x FY23E EPS).

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	5,931	4,802	23.5	4,992	18.8
Total Expense	5,246	4,305	21.9	4,443	18.1
EBITDA	685	498	37.6	549	24.8
Depreciation	242	247	(1.8)	239	1.3
EBIT	442	251	76.3	310	42.8
Other Income	39	27	43.0	30	30.2
Interest	45	45	0.3	45	1.5
EBT	436	233	87.1	295	47.8
Tax	113	65	74.2	76	48.7
RPAT	292	138	112.2	195	49.3
APAT	292	138	112.2	195	49.3
			(bps)		(bps)
Gross Margin (%)	41.3	43.1	(173)	41.5	(11)
EBITDA Margin (%)	11.5	10.4	118	11.0	55
NPM (%)	4.9	2.9	206	3.9	101
Tax Rate (%)	25.9	27.8	(191)	25.7	16
EBIT Margin (%)	7.5	5.2	223	6.2	126

CMP	Rs 244
Target / Upside	Rs 396 / 62%
NIFTY	15,314

Scrip Details

Equity / FV	Rs 602mn / Rs 10
Market Cap	Rs 15bn
	USD 202mn
52-week High/Low	Rs 284/ 125
Avg. Volume (no)	48,971
Bloom Code	SANDHAR IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	9	(11)
Rel to NIFTY (%)	(1)	9	(3)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	70.3	70.3	70.3
MF/Banks/FIs	15.6	15.1	17.2
FIIIs	3.6	3.6	1.5
Public / Others	10.5	11.1	10.9

Valuation (x)

	FY21E	FY22E	FY23E
P/E	27.0	14.3	11.1
EV/EBITDA	8.9	6.3	4.9
ROE (%)	7.0	11.9	13.4
RoACE (%)	7.9	11.3	12.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	18,438	22,868	25,929
EBITDA	1,880	2,495	2,913
PAT	544	1,028	1,324
EPS (Rs.)	9.0	17.1	22.0

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On the road to recovery

We believe earnings are likely to improve driven by 1) revival in 2W volumes; 2) increase in content per vehicle in the Locks and Mirrors division; 3) ramp up in Aluminum die casting business and 4) strong growth in Cabin and fabrication business led by pick up in construction activities and 5) cost control 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 15-20% CAGR over 2-3 years.

Moreover, Sandhar is a supplier for all existing EV players in the domestic market and stands to remain unaffected by the advent of EVs as none of their main line products are powertrain dependent. Company is adequately equipped to add any new product lines with respect to EVs.

JV Performance

For 9MFY21, JVs reported PAT loss of Rs 90mn. However, revenue contribution of JVs is expected to improve significantly and reduce losses due to economies of scale and new orders from OEMs for helmets and headgears (Sandhar Amkin). Sandhar Whetron (parking sensors) to start delivering to 4W OEMs from FY22.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Comment
Revenue	5,931	5,310	12	New order wins
EBIDTA	685	573	19	Cost optimization measures
EBIDTA Margin (%)	11.5	10.8	75bps	
APAT	292	219	33	Higher other income

Source: DART, Company

Exhibit 2: Change in Estimates

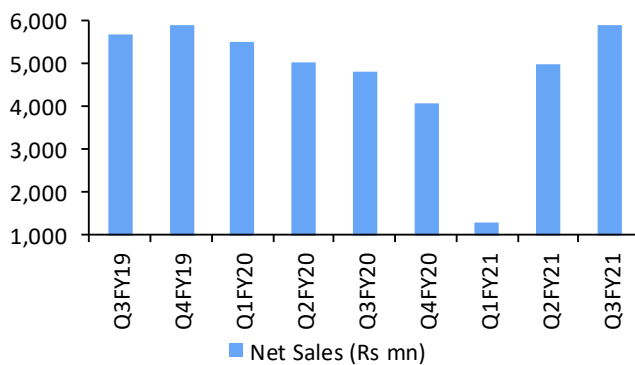
Rs Mn	FY22E			FY23E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	22,868	19,108	19.7	25,929	22,114	17.3
EBITDA	2,495	2,095	19.1	2,913	2,445	19.1
EBITDA margin(%)	10.9	11.0	(5)bps	11.2	11.1	18bps
APAT	1,028	674	52.4	1,324	919	44.0
EPS	17.1	11.2	52.4	22.0	15.3	44.0

Source: DART, Company

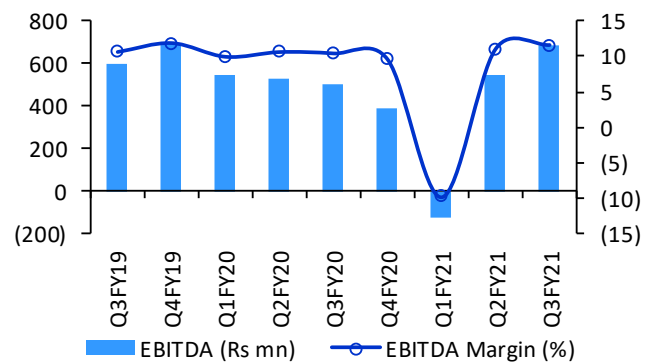
Exhibit 3: Assumption Sheet

	FY19	FY20	FY21E	FY22E	FY23E
Locking Systems	5,053	4,088	3,884	4,738	5,117
(% YoY)	14	(19)	(5)	22	8
Vision Systems	2,440	1,749	1,539	2,001	2,161
(% YoY)	5	(28)	(12)	30	8
Sheet Metal Components	2,935	2,243	2,199	2,858	3,087
(% YoY)	14	(24)	(2)	30	8
Cabins & Fabricators	2,896	2,373	2,420	3,025	3,690
(% YoY)	104	(18)	2	25	22
Aluminium Die Casting	3,810	3,734	3,808	4,760	5,617
(% YoY)	30	(2)	2	25	18
Assemblies	3,453	3,076	2,092	2,615	2,954
(% YoY)	50	(11)	(32)	25	13
Others	2,820	2,171	2,497	2,871	3,302
(% YoY)	(19)	(23)	15	15	15
Total	23,406	19,434	18,438	22,868	25,929
(% YoY)	20	(17)	(5)	24	13

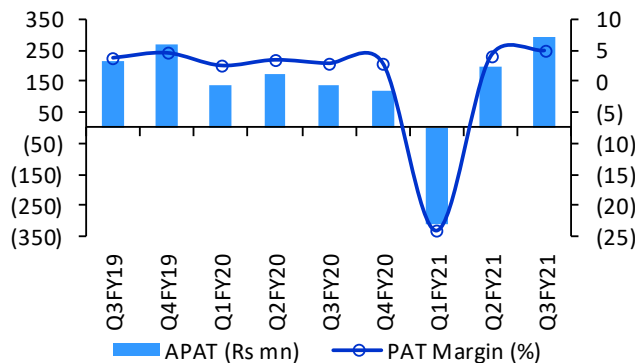
Source: Company, DART

Exhibit 4: Consolidated Net Revenue (Rs mn)


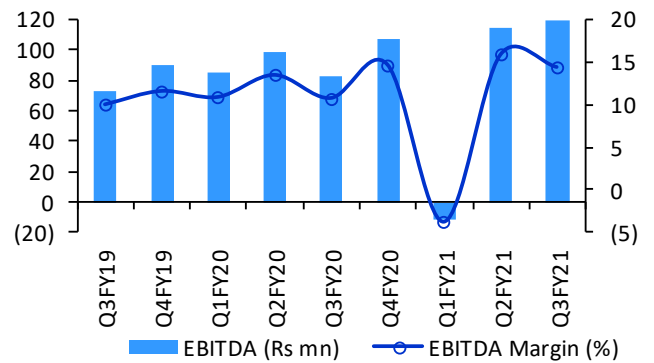
Source: Company, DART

Exhibit 5: EBITDA (Rs mn) and EBITDA Margin


Source: Company, DART

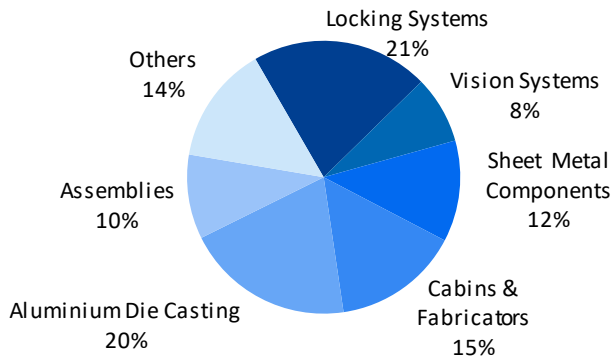
Exhibit 6: APAT (Rs mn) vs PAT Margin


Source: Company, DART

Exhibit 7: Subsidiary margin performance


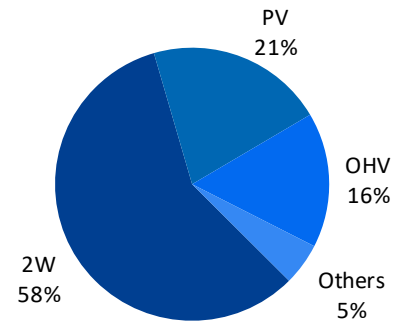
Source: Company, DART

Exhibit 8: Product wise Revenue (Q3FY21)



Source: Company, DART

Exhibit 9: Segment wise Revenue mix (Q3FY21)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	19,434	18,438	22,868	25,929
Total Expense	17,470	16,558	20,373	23,016
COGS	11,136	10,694	13,286	15,039
Employees Cost	2,909	2,821	3,245	3,699
Other expenses	3,426	3,042	3,842	4,278
EBIDTA	1,964	1,880	2,495	2,913
Depreciation	984	946	998	1,049
EBIT	980	934	1,497	1,864
Interest	205	200	194	184
Other Income	100	110	110	110
Exc. / E.O. items	0	0	0	0
EBT	875	844	1,413	1,790
Tax	211	215	360	457
RPAT	570	544	1,028	1,324
Minority Interest	0	0	0	0
Profit/Loss share of associates	(95)	(85)	(25)	(10)
APAT	570	544	1,028	1,324

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	7,405	8,661	9,950
Net Worth	7,625	8,007	9,263	10,552
Total Debt	2,647	2,297	2,147	1,997
Net Deferred Tax Liability	175	175	175	175
Total Capital Employed	10,483	10,516	11,621	12,761

Applications of Funds

Net Block	8,313	7,767	7,469	7,220
CWIP	330	330	330	230
Investments	480	760	960	860
Current Assets, Loans & Advances	4,536	5,178	7,233	9,193
Inventories	1,957	1,758	2,111	2,349
Receivables	1,919	2,576	3,195	3,552
Cash and Bank Balances	75	288	1,237	2,512
Loans and Advances	279	265	328	372
Other Current Assets	306	291	360	409
Less: Current Liabilities & Provisions	3,176	3,519	4,370	4,742
Payables	2,401	2,783	3,458	3,708
Other Current Liabilities	775	735	912	1,034
	<i>sub total</i>			
Net Current Assets	1,360	1,659	2,863	4,451
Total Assets	10,483	10,516	11,621	12,761

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.7	42.0	41.9	42.0
EBIDTA Margin	10.1	10.2	10.9	11.2
EBIT Margin	5.0	5.1	6.5	7.2
Tax rate	24.1	25.5	25.5	25.5
Net Profit Margin	2.9	3.0	4.5	5.1
(B) As Percentage of Net Sales (%)				
COGS	57.3	58.0	58.1	58.0
Employee	15.0	15.3	14.2	14.3
Other	17.6	16.5	16.8	16.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.3	0.2	0.2
Interest Coverage	4.8	4.7	7.7	10.1
Inventory days	37	35	34	33
Debtors days	36	51	51	50
Average Cost of Debt	7.7	8.1	8.7	8.9
Payable days	45	55	55	52
Working Capital days	26	33	46	63
FA T/O	2.3	2.4	3.1	3.6
(D) Measures of Investment				
AEPS (Rs)	9.5	9.0	17.1	22.0
CEPS (Rs)	25.8	24.8	33.7	39.4
DPS (Rs)	2.0	1.9	3.6	4.6
Dividend Payout (%)	21.1	21.1	21.1	21.1
BVPS (Rs)	126.7	133.0	153.9	175.3
RoANW (%)	7.7	7.0	11.9	13.4
RoACE (%)	8.5	7.9	11.3	12.4
RoAIC (%)	9.6	9.1	14.5	18.1
(E) Valuation Ratios				
CMP (Rs)	244	244	244	244
P/E	25.8	27.0	14.3	11.1
Mcap (Rs Mn)	14,692	14,692	14,692	14,692
MCap/ Sales	0.8	0.8	0.6	0.6
EV	17,264	16,701	15,602	14,177
EV/Sales	0.9	0.9	0.7	0.5
EV/EBITDA	8.8	8.9	6.3	4.9
P/BV	1.9	1.8	1.6	1.4
Dividend Yield (%)	0.8	0.8	1.5	1.9
(F) Growth Rate (%)				
Revenue	(16.8)	(5.1)	24.0	13.4
EBITDA	(21.9)	(4.2)	32.7	16.7
EBIT	(42.6)	(4.6)	60.3	24.5
PBT	(42.5)	(3.6)	67.4	26.7
APAT	(41.0)	(4.5)	88.9	28.8
EPS	(41.0)	(4.5)	88.9	28.8
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,390	1,689	1,991	2,253
CFI	(1,985)	(725)	(915)	(610)
CFF	(378)	(711)	(117)	(368)
FCFF	580	1,289	1,291	1,553
Opening Cash	48	75	328	1,287
Closing Cash	75	328	1,287	2,562

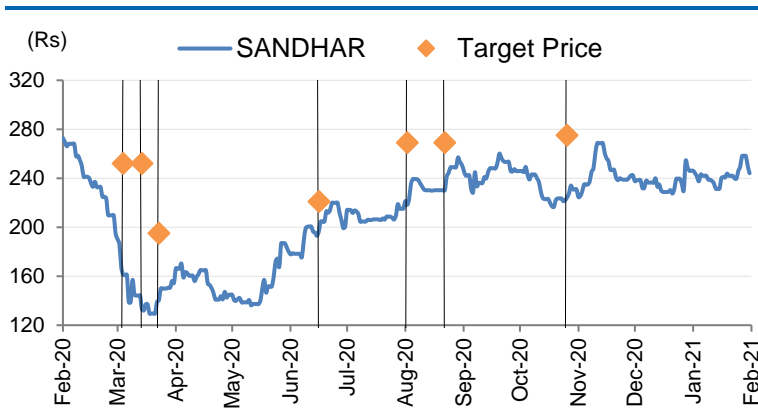
E – Estimates

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.)
Mar-20	Buy	252	161
Mar-20	Buy	252	133
Apr-20	Buy	195	140
Jul-20	Accumulate	221	197
Aug-20	Buy	269	218
Sep-20	Buy	269	230
Nov-20	Buy	275	224

*Price as on recommendation date

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