

IPO NOTE

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14th March, 2018

Issue Details

Price Band (Rs)	327-332
Face Value(Rs)	10
Issue Size(Rs)	512cr
Issue Type	Book building
Minimum lot	45 shares
Issue Opens	March 19,2018
Issue Closes	March 21,2018
Listing on	NSE, BSE

Indicative Timeline

On or before	
Finalization of Allotment	March 26,2018
Initiation of refund	March 27, 2018
Credit of Shares to Demat Accounts	March 28,2018
Listing on Stock Exchanges	April 02, 2018

Other Detail

Lead Managers	ICICI Securities Ltd & Axis Capital Ltd
Registrar	Link Intime Pvt Ltd

Sandhar Technologies Ltd.

Company Background

Incorporated in 1987, a Gurgaon based company, Sandhar Technologies (Sandhar) is a component supplier primarily catering to automotive OEMs and is largely focused on safety and security systems of vehicles with a pan-India and growing international presence.

Sandhar commenced operations as a sheet metal product supplier to HeroHonda. The company steadily diversified into locks, automotive mirrors, handles, zinc and aluminium PDC, plastic injection moulding, dyes and moulds, wheel rims, handle bars, clutches, operator cabins, and automotive electronics.

Currently, the company manufactures 21 categories of products, including product categories that are manufactured through subsidiaries and joint ventures, which cater to different industry segments.

Sandhar is promoted by a first-generation entrepreneur, Jayant Davar, Co-Chairman and Managing Director of the company, who has 30 years of experience in the OEM component manufacturing industry.

Issue Details

Sandhar will be raising Rs.512Cr through the fresh issue of equity shares worth Rs 300cr and offer for sale of up to 64,00,000 equity shares of face value Rs.10/- each on the upper price band of Rs.332/- The promoter's stake in the company will stand reduced to 70.14% from the current 82.53% (post the IPO). GTI Capital Beta, a private equity investor, is off-loading 10.6% in the company.

Details of selling shareholders:

Sr No	Name of Selling Shareholders	Number of shares to be sold
1	GTI Capital Beta Pvt Ltd	64,00,000

Source: Company RHP, ACMIIL

Objective of the issue:

Company proposes to utilize Net Proceeds towards:

1. Repayment of long term debt worth Rs 225cr
2. General Corporate Purpose.

Details of selling shareholders:

Category	Allocations	No of shares	Issue Size (Rs. Cr) at	
			Lower Band (Rs 327)	Upper Band (Rs 332)
QIB	50%	77,18,072	252	256
Non - Institutional Investors	15%	23,15,422	76	77
Retail Individual	35%	54,02,650	177	179
Total	100%	1,54,36,144	505	512

Source: Company RHP, ACMIIL

Outlook and Valuations

Sandhar is an automotive component supplier in India. With gradual recovery in economy, increasing affordability, better crop output, and lower inflation rate, we believe, this will boost higher auto demand in the coming years. Moreover, company has been committed to increase market share across various new product verticals along with expanding

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customer base and geographical footprint. We believe this will improve the company's performance in the coming years. At the upper price band of Rs 332/-, the company's stock trades at 29.2x its FY18E EPS of Rs 11.4/-, which is fairly priced. Hence, we recommend to **SUBSCRIBE the issue on long-term basis.**

Business Overview:

Sandhar is a customer centric auto component supplier primarily catering to automotive OEMs and largely focused on safety and security systems of vehicles with a pan India presence and a growing international footprint. Company is the leader in the two-wheeler locking systems market, and the commercial vehicle rear view market in India, and is one of the two largest companies catering to the commercial vehicle locking systems market, and the two wheeler rear view market in India. It is also one of the two largest manufacturers of operator cabins in India, along with being the largest player in the excavator cabins market.

Sandhar manufactures 21 categories of products from 32 manufacturing facilities across eight states in India, two manufacturing facilities in Spain, and one manufacturing facility in Mexico. Company's facilities are located in key auto-clusters in the northern, southern, and western parts of India and most of their facilities are in close proximity to the plants of OEM customers. Their product portfolio comprises of various categories of products including safety and security systems such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, aluminium spools, spindles, and hubs. It also manufacture other product categories including wheel assemblies, handle bar assemblies, brake panel assemblies, sheet metal components such as fuel filler caps, fuel cock assembly, step pillions, tools, dies, moulds, other aluminium components, crane and tractor parts, plastic and painted parts such as door handles (inner and outer), panels for televisions, and cabinets for air conditioners. Company's products are manufactured through diversified technology platforms such as plastic injection moulding, zinc die casting, aluminium die casting, sheet metal stampings and fabrication, automotive electronics and robotic painting. They also have dedicated in-house tool room facilities. Whilst many of these processes were established as a part of their backward integration strategy, company also been able to commercialize many of these processes for direct supplies to meet the needs of their customers.

Company have also entered into the following JV arrangements:

Name of JV	Name of JV partner	Activity Undertaken
Indo Toolings	JBM Auto	Commercial tooling activities
Sandhar Han Sung	Han Sung	Manufacture of high precision press parts, insert moulded contact plates & switches
Jinyoung Sandhar	Jinyoung Electro-Mechanics	Assembly of AVN panels & switches
Sandhar Ecco-Green Energy	DMRG & Tarun Agarwal	EPC contracts in the field of solar power generations
Sandhar Daewha	Daewha Fuel Pump	Mfg & assembly of oil fuel module, fuel filters, starter motors & wiper bladers
Sandhar Amkin	Amkin Group	Mfg of safety rider helmets & other headgears for two wheelers

Source: Company RHP, ACMIL

Further, company has long standing relationship with major customers. Company's customer portfolio consists of 79 Indian & global OEMs across various segments, including those indicated in table below:

Segments	Total no of OEM customers	Few key OEM Clients
Two Wheelers	9	Hero, TVS, Royal Enfield, Suzuki
Passenger & Commercial Vehicle	21	Honda, Tata Motors, Ashok Leyland, SML Isuzu
Off- Highway Vehicles	34	JCB, Caterpillar, Escorts, Tata Hitachi, M&M, TAFE, Volvo
Non Automotive	15	Forza Medi

Source: Company RHP, ACMIL

Moreover, company has a successful track record of acquiring assets. During 2008, company acquired the business of TECFISA, Spain, which was engaged in aluminium die casting of small parts and mould design. Subsequently, in Fiscal 2013, they acquired the business of Mag Engineering, and the cabin business of Arkay Fabsteel in Fiscal 2015.

Investment Rationale:

Long-standing, and growing relationships with major OEMs

Company has long-standing relationships with 79 Indian and global OEM customers, which include some leading companies such as Ashok Leyland, Doosan Bobcat, Escorts, Hero, Honda Cars, Komatsu, Scania, TAFE, Tata Motors, TVS, UM Lohia, and Volvo. Further, company has grown their client base over the last few years to include OEMs such as Caterpillar, CTS, Hyundai Construction, International Tractors, JCB, Kobelco, Mahindra & Mahindra, and SML Isuzu. Company believes that their long-standing and growing relationship with customers bears testimony to their ability to successfully serve and meet their requirements. Moreover, company strive to gain an increasing share of their existing OEM customers' auto component requirements, and to add new customers in their portfolio

Diversified product portfolio

Over the years, company believes that they have been able to become an integral part of many of their customers' manufacturing supply chains by offering multiple products, and by increasing their share in their costs of production. Together, with increasing the number of customers, company has also been able to increase the range of products that they supply to existing customers. Company's product portfolio comprises various categories of products including safety and security systems such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, aluminium spools, spindles, and hubs. They also manufacture other product categories including wheel assemblies, handle bar assemblies, brake panel 164 assemblies, sheet metal components such as fuel filler caps, fuel cock assembly, step pillions, tools, dies, moulds, other aluminium components, crane and tractor parts, plastic and painted parts such as door handles (inner and outer), panels for televisions, and cabinets for air conditioners. Through Joint Ventures, company also produce products such as high precision press parts, insert moulded contact plates, AVN panels and switches.

Production facilities close to customers based on philosophy – 'Be Glocal'

Company constant strategy has been to invest in locations close to their OEM customers' plants, which they believe has been a key factor in aiding a strong relationship with OEM customers. Their manufacturing facilities are in close proximity to their OEM customers' plants in all key auto-clusters in India. We believe company's multi-location strategy provides them with an opportunity to expand their customer base as well as product portfolio in all key auto clusters, thereby helping them in their strategy to reduce volatility in sales due to fluctuations in market demand for the products of any particular OEM. As on date, Sandhar have expanded their operations from four manufacturing facilities in India as on March 31, 2005 to 32 manufacturing facilities in India, two manufacturing facilities in Spain, and one manufacturing facility in Mexico. Further, company have also made significant investment in capital expenditure in the last three years, investing Rs138cr, Rs101cr and Rs128cr for Fiscals 2017, 2016 and 2015, respectively. These have, inter alia, been incurred towards procurement of plant and equipment and commissioning of buildings (gross block). We believe that such capital expenditures incurred will aid in the growth of their total revenues as well as improving margins going forward.

In-house research and development, design capability and technical collaborations

Sandhar implement and create access to modern and advanced technology through in-house research and development activities, joint ventures and technical collaborations. Research and development is a critical part of their business, and they have an R&D team which comprised 35 engineers as on Dec, 2017 based out of SCID in Gurugram. Company's R&D team primarily works on the development of new products, designing, prototyping, and product upgrades. This apart, their strong research and development capabilities are further demonstrated by the patent applications made by them. Further, company currently has six Joint Ventures which manufacture products such as high precision press parts, insert moulded contact plates, AVN panels, and switches. In addition to Joint Ventures, company also have entered into technical collaborations, inter alia, with: (i) Honda Lock for availing technical advice from Honda Lock in relation to door mirrors, outside door handles, and key sets for automobiles and motorcycles, and (ii) JEM Techno for availing technical advice from JEM Techno in relation to relays used in automobiles. Moreover, company also collaborated with leading international players for development of parking assistant systems, fuel filters, fuel modules, starter motors and shark-finned antennas. We believe the company's joint ventures and technical collaborations provide them a competitive advantage by enabling them to exploit technologies and expertise developed by their partners.

Experienced board and senior management team

Company has a well – qualified management team that has significant experience in all aspects of their business. Company's management team is led by Promoter Mr. Jayant Davar, who serves as a Co-Chairman and Managing Director. He is a mechanical engineer with 30 years of experience in the industry of auto components. Further, management team has executed restructuring strategies to fix structural issues arising from legacy acquisitions and has successfully integrated new acquisitions. Management team has also been instrumental in establishing and maintaining relationships with their customers. We believe they have a strong platform for growth based on the strength of their senior management team and their experience. In the last 12 years, company has also received investment from two private equity investors, namely the Actis Group and GTI. These investments by Actis Group and GTI, have help them in enhancing and strengthening their operations, financial and internal controls, as well as corporate governance standards.

Established financial track record

Company has delivered a consistent growth over the last five financial years both in terms of financial and operational metrics. In last five years i.e. FY13-FY17, company's revenue & profitability has grown at a CAGR of 9% & 20% respectively. Also, during the same period, company's operating margin has remained in the range of 8-9%. Further, company's leverage ratio stands at 1.28x as on H1FY18.

Moreover through IPO, company looking to pare down its long term debt by Rs 225cr & we believe, this will improve the leverage ratio considerably. Also, lower finance cost will boost profit growth in coming years. Company also has a successful track record of acquiring assets. Further, in last five years, company incurred a capex worth Rs 650cr for organic & inorganic opportunities. With this, company is in process to commence 8 new manufacturing plants in India. Going ahead, company to enjoy the fruits of its investments & this will improve the operational performance of the company. In order to strengthen their position, the company intends to continue their strategy to explore opportunities, including selectively evaluating targets for strategic acquisitions and investments.

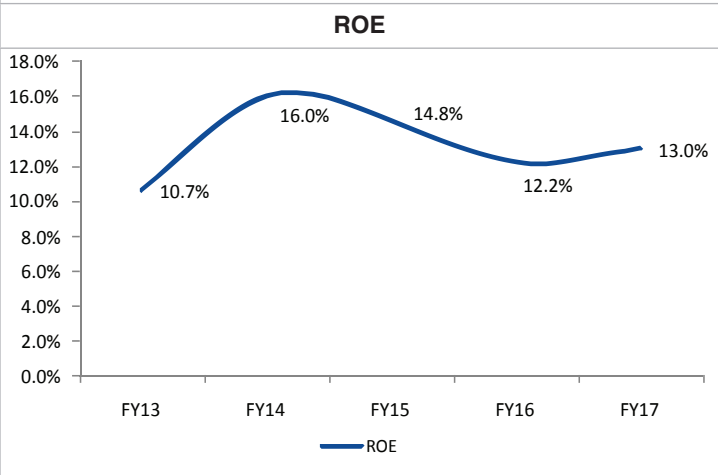
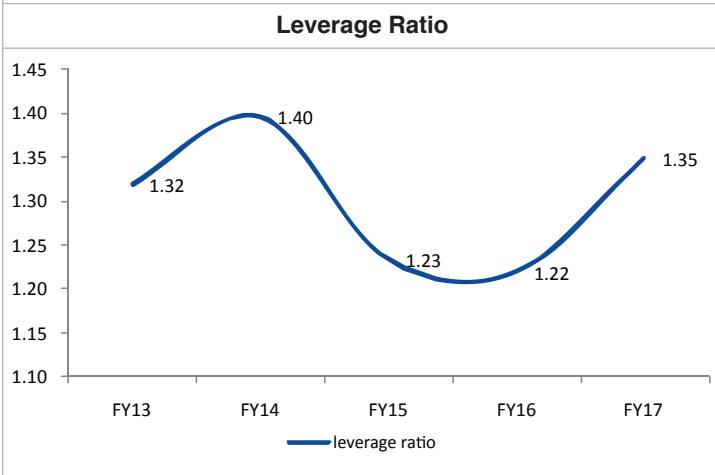
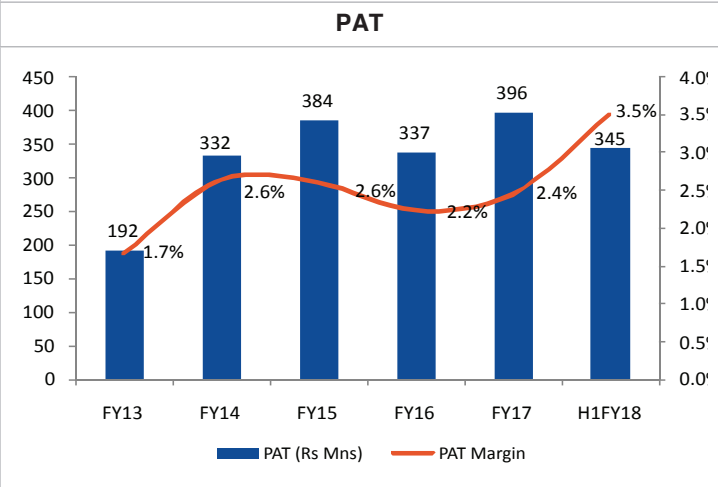
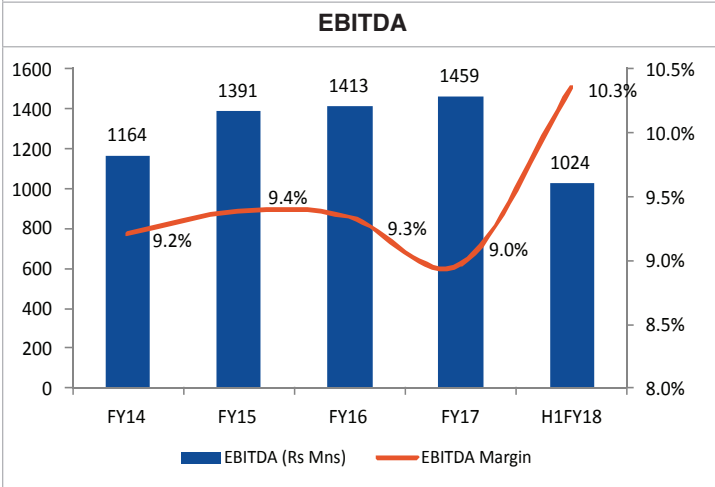
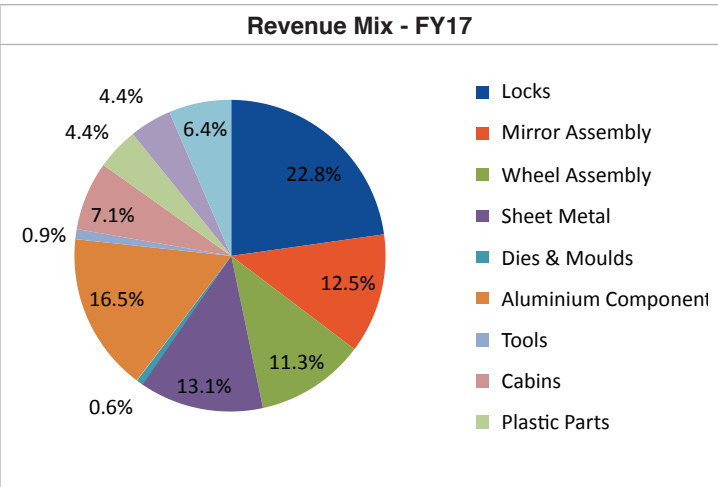
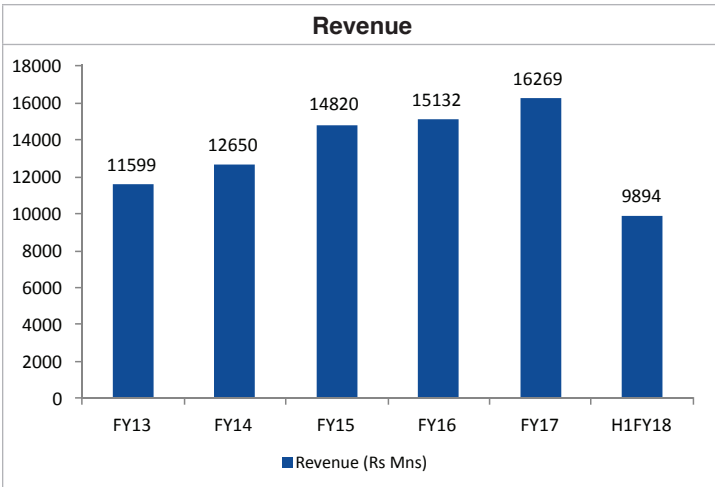
Risk Factors:

1. Company depends on limited number of customers for significant portion of their revenues
2. Company exposed to foreign currency exchange rate fluctuations, which may impact their results of operations
3. Company rely significantly on the two-wheeler market and any adverse changes to the demand in the two-wheeler market could adversely impact their business
4. Any failure to identify and understand evolving industry trends and preferences and develop new products to meet their customers' demands may adversely affect their business.
5. Any failure to keep technical knowledge confidential could erode their competitive advantage.

Peer Comparison – FY17

Name of Company	Minda Corp	Minda Ind	Suprajit Eng	JBM Auto	Gabriel Ind	Fiem Ind	Sandhar
Total Revenue (Rs Mns)	30,083	35,189	12,378	18,008	15,345	10,235	16,269
EBITDA (Rs Mns)	1,814	3,836	2,008	1,916	1,424	1,231	1,459
EBITDA %	6.00%	10.90%	16.20%	10.60%	9.30%	12.00%	9.00%
PAT (Rs Mns)	961	1,681	1,227	659	816	331	392
PAT %	3.20%	4.80%	9.90%	3.70%	5.30%	3.20%	2.40%
EPS (Rs)	4.5	21.1	8.8	15.9	5.7	26.3	7.7
FV	2	2	1	5	1	10	10
PE (x)	40.9	55.3	32.1	26.2	27.1	32.1	43.3
ROE %	14.80%	23.10%	23.80%	15.70%	18.10%	7.80%	13.00%

Source: Company RHP, ACMIL



Source: Company RHP, ACMIL

Financials

Profit & Loss statement

Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	H1FY18
Revenue from Operations	11599	12650	14820	15132	16269	9894
Less: Operating exp						
Cost of raw material consumed	7349	7688	9115	9026	9602	5984
Changes in inventory	-155	43	-38	-13	-91	-65
Employee Benefit Expenses	1561	1602	1843	2018	2354	1300
Other Expenses	1912	2153	2509	2688	2945	1651
Total Expenses	10667	11486	13429	13719	14810	8870
EBITDA	932	1164	1391	1413	1459	1024
EBITDA %	8.0%	9.2%	9.4%	9.3%	9.0%	10.3%
Less : Dep & Amortization	359	395	524	551	603	338
EBIT (before Other income)	573	769	867	862	856	686
Add : Other Income	22	38	53	45	66	11
EBIT (After Other Income)	595	807	920	907	922	697
Less : Finance cost	341	390	406	418	422	197
Add: exceptional items	0	0	0	37	5	0
PBT	254	417	514	452	495	500
Less : Tax	62	85	130	115	99	155
Net Profit before Minority Int	192	332	384	337	396	345
Less: Minority Int	1	1	1	3	4	3
Net Profit	191	331	383	334	392	342
PAT %	1.7%	2.6%	2.6%	2.2%	2.4%	3.5%
EPS (Rs)	3.8	6.6	7.5	6.5	7.7	6.7

Source: Company RHP, ACMIL

Balance sheet

Particulars (Rs Mns)	FY13	FY14	FY15	FY16	FY17	H1FY18
Share Capital	94	94	102	511	511	511
Reserves	1699	1977	2490	2225	2502	2796
Total Shareholders Fund	1793	2071	2592	2736	3013	3307
Share application money	0	15	0	0	0	0
Minority Int	13	14	15	18	22	26
Non Current Liabilities						
Long term borrowings	1328	1262	1667	1945	2092	1918
Deferred Tax liabilities	140	145	106	80	83	82
Long term provisions	1	2	0	6	8	10
Other long term liabilities	0	0	0	57	51	104
Total Non Current Liabilities	1469	1409	1773	2088	2234	2114
Current Liabilities						
Short term borrowings	895	1483	1423	1247	1832	2104
Trade Payables	1623	1836	2248	2249	2362	3152
Other Current Liabilities	864	992	979	1220	1138	1414
Short Term Provision	47	81	131	95	140	237
Total Current Liabilities	3429	4392	4781	4811	5472	6907
Total Liabilities	6,704	7,901	9,161	9,653	10,741	12,354
Assets						
Tangible Assets	3770	4115	4607	5143	5839	6125
Intangible assets	46	69	155	134	120	109
CWIP	205	263	405	552	292	697
Goodwill on Consolidation	12	7	0	7	5	5
Non Current Investment	30	30	30	31	31	30
Long term loans & advances	178	293	162	163	157	231
Deferred tax assets	4	0	3	6	10	13
Other Non current assets	21	0	2	0	7	3
Total Non Current Assets	4266	4777	5364	6036	6461	7213
Current Asset						
Current investment	37	0	0	10	10	25
Inventories	1165	1299	1572	1598	1671	1935
Trade Receivables	980	1514	1876	1667	2093	2643
Cash & Cash Eq	63	27	73	60	73	61
Short Term Loans & Advances	186	282	252	276	303	454
Other Current Assets	7	2	24	6	130	23
Total Current Asset	2438	3124	3797	3617	4280	5141
Total Asset	6,704	7,901	9,161	9,653	10,741	12,354

Source: Company RHP, ACMIIL

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