SANDHAR
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Ref: STL / REG-30 /BSE / NSE / 2021-2022 /86

Dated: 22nd October, 2021

To,
Department of Corporate Services,
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
Mumbai – 400 001

To,
Listing Department,
National Stock Exchange of India Limited
C-1, G-Block, Bandra-Kurla Complex
Bandra, (E), Mumbai – 400 0051

BSE Code: 541163; NSE: Sandhar

Subject: Intimation under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

We wish to inform you that India Ratings & Research has affirmed the rating of the Company with a Long Term Issuer Rating at 'IND AA-'. The Outlook is Stable as per the Rating Rationale enclosed herewith.

We request you to take the same on record.

Thanking You

Yours faithfully,

FOR SANDHAR TECHNOLOGIES LIMITED

Komal Malik
(Company Secretary & Compliance Officer)

SANDHAR TECHNOLOGIES LIMITED STL

Encl: As above

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India Ratings Affirms Sandhar Technologies at 'IND AA-'/Stable & its CP at 'IND A1+'

22

OCT 2021

By Pallavi Bhati

India Ratings and Research (Ind-Ra) has affirmed Sandhar Technologies Limited's (STL) Long-Term Issuer Rating at 'IND AA-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR1,960 (increased from INR1,490)	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR1,260 (reduced from INR1,730)	IND AA-/Stable/IND A1+	Affirmed
Commercial paper (CP)*	-		Up to 365 days	INR800	IND A1+	Affirmed

* Carved out of working capital limits

Analytical Approach: Ind-Ra continues to take a consolidated view of STL and its three subsidiaries, while arriving at the ratings as they operate similar businesses and STL has a strong operational and management control over them. The company's 12 joint ventures (JVs) have been considered according to Ind-AS. STL also supports these entities by extending loans and advances, and corporate guarantees for the loans extended to some of these entities.

KEY RATING DRIVERS

Diversified Product Offering with Strong Competitive Positioning: STL's portfolio comprises of safety and security systems such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles (OHV), wheel and brake panel assemblies, aluminium die casting and sheet metal components. The company has a presence across vehicle segments including two wheelers (2W), passenger vehicles (PV), tractors and OHV, and commercial vehicles & others which accounted for 57%, 20%, 18%, 5% of FY21 revenue, respectively. While the company mainly caters to domestic original equipment manufacturers (OEMs), it derived 14% of its FY21 revenue from its subsidiary outside India (FY20: 15%).

STL is the sole supplier/single-source supplier of lock sets and mirror assemblies to Hero MotoCorp Limited, TVS Motors Limited for motorcycles and Honda Cars India Limited. Moreover, it is a single-source supplier of wheel assemblies to TVS Motors Limited and Eicher Motors Limited (Royal Enfield), and operator cabins for excavators to JCB India Limited.

Likely Increase in Revenue in FY22-FY23: STL's revenue declined to INR18,636 million in FY21 (FY20: INR19,434 million), against a 14% yoy decline in production volumes in the auto sector amid Covid-19-related disruptions. The lower decline was due to increased share of business in the OHV segment and new products developed in 2W segment. Ind-Ra expects STL's revenue to increase to INR21,500 million-23,500 million in FY22, on account of (i) a likely recovery of 12%-16% in the auto sector production volumes in FY22 backed by a lower base in 1HFY21 amid the Covid-19-led nationwide lockdown, (ii) revenue generation from the five plants likely to be commissioned in 4QFY22, and (iii) pass through of higher raw materials costs to customers, which are passed on with a lag of one quarter. In 1QFY22, the revenue increased to INR4,117 million (1QFY21: INR1,299 million; 1QFY20: INR5,517 million), as the recovery was partially offset by plant shutdowns by key customers amid the second wave. Ind-Ra expects the revenue growth of 15%-25%yoy to continue in FY23, on account of stabilisation of new plants. Furthermore, revenue growth in the near-to-medium term is likely to be driven by the addition of customers, development of new products and technical upgrades on existing products.

Stable EBITDA Margins: The consolidated EBITDA margins remained moderate at 10.1% in FY21 (FY20: 10.1%), as the impact of higher operating leverage and increased raw material costs in 4QFY21 was offset by fixed cost rationalisation measures and reduction in employee expenses undertaken in FY20-1HFY21.

During 1QFY22, the consolidated EBITDA turned positive to INR311 million (1QFY21: negative INR128 million), due to the recovery in revenue. Ind-Ra expects the expansion in the EBITDA margins to be constrained to 20-40bp yoy in FY22, as the impact of increased absorption of fixed costs would be partially offset by increased cost of raw materials. The agency expects the margins to further expand by 25-50bp yoy in FY23, on account of a likely increase in the revenue and increased contribution from higher margin products. Ind-Ra expects the EBITDA margins to be at 10.5%-11% in FY22-FY23.

Sustained Strong Credit Metrics: On a consolidated basis, the net adjusted leverage (net adjusted debt (adjusted for corporate guarantees)/operating EBITDA) marginally increased to 1.2x in FY21 (FY20: 1.0x) owing to a rise in debt to fund the increase in working capital requirements. However, the gross interest coverage (gross interest expenses/operating EBITDA) improved to 11.8x in FY21 (FY20: 9.6x), due to refinancing measures undertaken at Sandhar Technologies Barcelona SL (STB; 100% subsidiary). Ind-Ra expects the credit profile to marginally decline with the net adjusted leverage increasing to 1.4x-1.7x and the gross interest coverage declining to 9.0x-11.0x in FY22, respectively, due to the planned debt-funded capex of INR2,500 million -2,800 million during the year for addition of four plants in India (INR1,000 million-1,200 million), an aluminium dye casting plant in Romania (around INR900 million), and annual maintenance and upgradation capex (INR700-800 million). However, Ind-Ra expects the credit metrics to normalise FY23 onwards with a likely stabilisation of operations at the new plants in FY23.

Liquidity Indicator - Adequate: STL's average peak utilisation of its fund-based working capital limits was moderate at 61% during the 12 months ended September 2021. The company had cash and equivalents of INR75 million at FYE21 (FYE20: INR96 million). The cash flow from operations (CFO) declined to INR936 million in FY21 (FY20: INR2,090 million), driven by elongation of the working capital cycle to 33 days (30 days) due to higher sales in 4QFY21 and lower utilisation of factoring (purchase and sales bill discounting) facilities, which stood at INR376 million (INR497 million). Consequently, the free cash flow (FCF) declined to INR45 million in FY21 (FY20: INR1,032 million).

Ind-Ra expects the working capital cycle to remain at 33-36 days over FY22-FY23 but the CFO is likely to increase to INR1,200 million-1,700 million in FY22-FY23 backed by higher operational profits. However, Ind-Ra expects the FCF to turn negative to INR1,300-1,600 million in FY22, due to a higher capex planned. The FCF is expected to turn positive to INR700 million-900 million in FY23, owing to the likely normalisation of capex to INR700 million-800 million. The agency expects investments in JVs of INR200 million-300 million per year (FY21: INR264 million, FY20: INR235 million). Furthermore, STL has debt repayment obligations of INR126 million and INR283 million in FY22 and FY23, respectively.

The company has tied up term debt of INR1,000 million and fund-based limits of INR470 million in FY22. Furthermore, as per the management, the company is entitled to receive INR500 million-600 million government subsidy for construction its plant in Romania. Ind-Ra expects STL's FCF with tied up term and working capital debt, and subsidy to be adequate to fund the company's planned capex, investment in JVs and service debt. STL's debt service coverage ratio is likely to remain above 3.0x over the near-to-medium term (FY21: 7.5x).

Technological Tie-ups: STL has a technical collaboration with Honda Locks Manufacturing Company, which has helped the former in establishing itself as the single-source supplier of lock set assemblies to leading OEMs. Until end-September 2021, STL had entered into 11 JVs with an investment of INR927 million (FY21: 11 JVs, investment of INR908 million, September 2020: 11JVs, investment of INR710 million).

The JVs provide STL the technological expertise, enabling it to expand its presence in automotive electronics, safety and security-related component offerings in the PV segment and to supply higher content per vehicle to customers. STL continues to explore JVs with international auto component suppliers. The company may also qualify to avail the benefit of the Production Linked Incentive Scheme for auto component manufacturers through its JVs.

Support to Subsidiaries and JVs: STL's subsidiaries accounted for 74% of the consolidated debt in FY21 and 18% of the consolidated EBITDA (FY20: 80% and 19%, respectively). Furthermore, the revenue from subsidiaries declined 8.2% yoy to INR2,783 million in FY21, on account of the extended lockdown in Barcelona. Accordingly, the combined net leverage for the subsidiaries deteriorated to 4.9x in FY21 (FY20: 4.1x). The debt levels are relatively higher for the subsidiaries than those of STL on account of the high working capital requirements of STB, as it derives most of its revenue from exports, mainly to three Tier 1 customers. Ind-Ra expects the subsidiaries to continue to be a drag on ST's consolidated credit profile in the near-to-medium term, due to its planned capex in Romania.

Ind-Ra continues to monitor the credit profile and operational performance of STL's subsidiaries, although, the agency draws some comfort from the refinancing undertaken at the subsidiaries in FY21 resulting in conversion of about INR700 million debt into long term.

The company's JVs are in the nascent stage and the operations at nine of the 12 JV entities are yet to stabilise. STL's share of revenue of the JVs for FY21 stood at INR609 million (FY20: INR528 million) and EBITDA at negative INR82 million (negative INR68 million). Ind-Ra expects the JVs to scale up over the medium term; however, the return on investment in JVs is likely to remain constrained in the near term.

At FYE21, STL had extended corporate guarantees/standby letters of credit for loans extended to STB, Sandhar Han Sung Technologies Private Limited ('IND A-'/Stable) and Sandhar Amkin Industries Private Limited ('IND BBB'/Stable); the combined value of guarantees stood at INR962 million (FY20: INR881 million).

Significant Revenue Concentration: STL continues to have significant revenue concentration in the 2W segment. In FY21, the revenue contribution from its top two customers - Hero Moto Corp Limited and TVS Motors Limited was significant at 51% while that from its top 10 customers was 83% (FY20: 51% and 83%). While the company is focusing on revenue diversification into PV and OHV segments and customer diversification in the 2W space by adding new OEMs to its clientele, revenue concentration is likely to increase in the near term as four of its planned five new plants cater to Hero MotoCorp and TVS Motors.

Standalone Financials: On a standalone basis, STL's revenue stood at INR15,853 million (FY20: INR16,400 million), EBITDA at INR1,538 million, (INR1,590 million), net adjusted leverage at 0.4x (0.2x) and interest coverage at 16.9x (12.6x).

RATING SENSITIVITIES

Positive: A substantial increase in the consolidated revenue and profitability margin, improved product and customer diversification while maintaining the consolidated net leverage, all on a sustained basis, could result in a rating upgrade.

Negative: A significant decline in the consolidated revenue and profitability margin and/or the consolidated net adjusted leverage exceeding above 1.5x on a sustained basis will result in a rating downgrade.

COMPANY PROFILE

STL manufactures locking systems, mirror assemblies, sheet metal components, plastic injection mouldings, wheel assemblies, handle bars assemblies, clutches assemblies and brake panel assemblies at its various operating units in India. It was listed on the BSE Ltd and National Stock Exchange of India Limited in March 2018 with promoters owning 70.4% stake.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	FY21	FY20
Net revenue (INR million)	18,636	19,434
EBITDA (INR million)	1,884	1,964
EBITDA margin (%)	10.1	10.1
EBITDA interest coverage (x)	11.8	9.6
Net leverage (x)	1.2	1.0
Source: STL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (million)	Rating	23 October 2020	25 October 2019	22 February 2019	13 August 2018	28 June 2018
Issuer rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND AA-/Stable	IND A+/Stable
Fund-based working capital limits	Long-term/Short-term	INR1,960	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1+
Non-fund-based working capital limits	Long-term/Short-term	INR1,260	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND A+/Stable/IND A1+
CP	Short-term	INR800	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Non-fund-based limits	Low
Fund-based limits	Low
CP	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators

SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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