SANDHAR
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Ref: STL/SE/2022-2023/Reg. 30/49

Dated: 22nd October, 2022

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 – 400 051

BSE Code: 541163; NSE: SANDHAR

Subject: Renewal of Credit Rating of Sandhar Technologies Limited

Dear Sir/Madam,

Pursuant to Regulation 30 and other applicable provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform that Long Term Issuer Rating of Sandhar Technologies Limited has been reaffirmed by the India Ratings & Research.

The Outlook is Stable and the instrument-wise ratings/outlook are as follows:

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (Million)	Rating	22 October 2021	23 October 2020	25 October 2019
Issuer Rating	Long-term	-	IND AA-/ Stable	IND AA-/ Stable	IND AA-/ Stable	IND AA-/ Stable
Term loan	Long-term	INR 1,150	IND AA-/ Stable	-	-	-
Fund-based working capital limits	Long-/short-term	INR 2,810	IND AA-/ Stable/ IND A1+	IND AA-/ Stable/ IND A1+	IND AA-/ Stable/ IND A1+	IND AA-/ Stable/ IND A1+
Non-Fund-based working capital limits	Long-/short-term	INR 1,137	IND AA-/ Stable/ IND A1+	IND AA-/ Stable/ IND A1+	IND AA-/ Stable/ IND A1+	IND AA-/ Stable/ IND A1+
Commercial Paper	Short-term	INR 800	IND A1+	IND A1+	IND A1+	IND A1+

The above information will also be uploaded on the Company's website viz. www.sandhargroup.com.

Kindly take the same on record.

Thanking you,

Yours faithfully,

For SANDHAR TECHNOLOGIES LIMITED

Komal Malik
Digitally signed by Komal Malik
Date: 2022.10.22 13:24:09 +05'30'

Komal Malik
Company Secretary &
Compliance Officer

Encl.: Formal rating rationale issued by India Ratings & Research.

India Ratings & Research
A Fitch Group Company

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

Oct 21, 2022 | Auto & Ancillaries

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	-	-	-	INR2810 (increased from INR1,960)	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR1,137 (reduced from INR1,290)	IND AA-/Stable/IND A1+	Affirmed
Term loan	-	-	FY27	INR1,150	IND AA-/Stable	Assigned
Commercial paper (CP)*	-		Up to 365 days	INR800	IND A1+	Affirmed

* Carved out of working capital limits

Analytical Approach: Ind-Ra has taken a consolidated view of STL and its subsidiaries, while arriving at the ratings as all companies operate in similar businesses and STL has a strong operational and management control over them. The company's 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 safety and security systems such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles (OHVs), wheel and brake panel assemblies, aluminium die casting and sheet metal components. The company has a presence across vehicle segments including two wheelers (2Ws), passenger vehicles (PVs), tractors and OHVs, and commercial vehicles and others which accounted for 54%, 24%, 16%, 6% of FY22 revenue, respectively. While the company mainly caters to domestic original equipment manufacturers (OEMs), it derived 16% of its FY22 revenue from its subsidiary outside India (FY21: 14%).

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

Revenue Growth in FY22; Likely to Increase Further in FY23-FY24: STL's revenue increased 24.7% yoy to INR23,237 million in FY22, which was much higher than the growth recorded in the auto industry. The growth was driven by both volume increase as well as higher realisation. The revenue growth was supported by new products developed in the 2W segment, higher revenue from most of the vehicle segments and increased share of business from some of the major OEMs. In 1QFY23, the revenue continued to increase to INR6,750 million (1QFY22: INR4,100 million, 1QFY21: INR1,293 million), on account of continued recovery in domestic markets.

Ind-Ra expects STL's revenue to increase to INR26,000 million-28,000 million in FY23, on account of (i) a likely recovery of in the auto sector production volumes in FY23, (ii) ramp up of operations in the recently commissioned plants, and (iii) pass-through of higher raw materials costs to customers, which are passed on with a lag of one quarter. The new projects, likely to be commissioned by 4QFY23, will also drive revenue growth in the medium term.

New Capex to Support Incremental Scale: STL is constructing eight new plants including the one in Romania with a total capex spend of INR5,490 million over FY22-FY23. The company has already spent INR2,500 million until 1QFY23, while the remaining is likely to be completed during FY23. The new projects in India include four plants for sheet metal components, one for surface mount technologies, and two plants for machining for casting. The plant in Romania would be towards aluminium die-casting. As per management, three of these eight plants have already started operations while the remaining would commence operations in 4QFY23. All the projects put together have the potential to generate incremental peak revenue worth INR15,000 million-20,000 million, thus increasing the scale of operations significantly; although the ramp up would be gradual. Ind-Ra will continue to monitor for the development of the plant and any significant delay in the commencement or timely ramp up of new projects could impact the ratings adversely.

Liquidity Indicator - Adequate: STL's average peak utilisation of its fund-based working capital limits was 57% during the 12 months ended September 2022. The company had cash and equivalents of INR100 million at FYE22 (FYE21: INR75 million). The cash flow from operations plunged to INR362 million in FY22 (FY21: INR1,111 million), on the back of increase in higher working capital requirement, despite higher EBITDA levels. This, coupled with an increase in capex, caused the free cash flow to turn negative to INR2,669 million in FY22 (FY21: INR220 million). The company incurred capex of INR2,970 million in FY22, and is likely to spend about INR3,650 million in FY23 largely towards new projects sheet metal components, surface mounting technology in India and another plant in Romania.

The working capital cycle elongated to 52 days in FY22 (FY21: 49 days), mainly due to lower creditor days partly offset by lower receivable period. The payable period decreased to 65 days in FY22 (FY21: 77 days) as the company made payment to medium and small enterprises within the stipulated time period. Ind-Ra expects the working capital cycle to remain at similar levels and the cash flow from operations to increase to INR1,000 million-1,500 million in FY23-FY24, backed by higher profits. However, the free cash flow could remain negative in FY23 amid higher ongoing capex.

Management indicated that it will undertake only maintenance capex of INR600 million-650 million from FY24; thus, the free cash flow is likely to turn positive FY24 onwards. The company has already tied up term debt for capex. Furthermore, as per the management, the company is entitled to receive INR660 million government subsidy for the construction of its plant in Romania. Accordingly, Ind-Ra expects STL's cash flow generation, tied up term and subsidy to be adequate to fund the company's planned capex, investment in JVs and debt repayments.

The company does not expect any major investments in the JVs. STL has scheduled debt repayments of INR268 million and INR746 million in FY23 and FY24, respectively.

Support to Subsidiaries and JVs: STL's subsidiaries accounted for 54% of the consolidated debt in FY22 (FY21: 80%) and 19% of the consolidated EBITDA (18%). Although revenue from the subsidiaries increased on a year-on-year basis, the combined net leverage deteriorated to 6.7x in FY22 (4.9x). The debt levels are relatively higher for subsidiaries than STL standalone on account of historically higher working capital requirements of Sandhar Technologies Barcelona (STB), as it derives most of its revenue from exports, mainly to three Tier 1 customers, as well as incremental capex being incurred at the Romania plant. While the subsidiaries revenue has improved in FY22-1QFY23, the returns on investment generated from subsidiaries is much lower than the standalone performance. Ind-Ra expects the subsidiaries' performance to improve on year-on-year basis, however, given the planned capex in Romania, credit profile of subsidiaries is likely to remain deteriorated in the near-to-medium term. Moreover, STB's revenue is exposed to the risk of slowdown in Europe in the near-to-medium term. Ind-Ra will continue to monitor for any significant revenue drop on account of the same.

The company's JVs are in the nascent stage. As per management, 60% of the JVs performance has improved, the remaining are yet to stabilise. 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 FYE22, STL had extended corporate guarantees/standby letters of credit for loans extended to STB, Sandhar Engineering Private Limited, Sandhar Han Sung Technologies Private Limited and Sandhar Amkin Industries Private Limited ('IND BBB'/Stable); the combined value of guarantees stood at INR1,673 million at FY22 (FY21: 962 million).

Decline in EBITDA Margins: The consolidated reported EBITDA margins moderated to 8.9% in FY22 (10.1%), mainly on account of significantly increased raw material costs, which more than offset the positive impact of better improved operating leverage. During 1QFY23, the consolidated EBITDA was 8.1% (1QFY22: 7.6%) amid continuous increase in input prices. Ind-Ra expects EBITDA margins to be around FY22 levels, as 2HFY23 margins are likely to be better than 1HFY23 as the management expects input prices are likely to soften in 2HFY23.

Moderate Credit Metrics; Improvement Likely from FY24: The company's consolidated gross debt (company reported) increased significantly in FY22 to INR5,156 million (FY21: INR2,206 million) mainly on account of the significant capex being undertaken by the company in FY22 as well as increased working capital debt in line with increased in sales. Ind-Ra also considers leases, guarantees provided by the company to its JVs and acceptances as a part of debt. On adjusting the same, the company's net adjusted leverage (net adjusted debt /operating EBITDA) increased to 3.2x in FY22 (FY21: 1.9x).

However, the gross interest coverage (operating EBITDA/interest expense) remained stable at 11.6x in FY22 (11.8x). Although, it declined to 7.7x in 1QFY23 (1QFY22: 8.0x) as interest expenses related to incremental capex-related debt started coming on the books. Ind-Ra expects the net leverage to remain at 2.5x-3.0x in FY23 as the company plans to complete its planned capex on new projects. The net leverage is likely to reduce below 2.0x only from FY24. Interest coverage is also likely to moderate in FY23-FY24 from historical levels.

Significant Revenue Concentration: STL continues to have significant revenue concentration in the 2W segment. In FY22, the revenue contribution from its top two customers - HMC and TVS – was significant at 47% while that from its top 10 customers was 79.5% (FY21: 51%, FY20: 82%). 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 majority of its planned new plants cater to HMC and TVS.

Standalone Financials: On a standalone basis, STL's revenue stood at INR19,410 million (FY21: INR15,853 million), EBITDA was INR1,660 million (INR1,537 million). net adjusted leverage was 2.7x (1.3x) and interest coverage was 17.6x (16.9x).

Rating Sensitivities

Positive: A substantial increase in the consolidated revenue and profitability; improved product and customer diversification, maintaining strong cash flow margins, with a low net adjusted 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 visibility of the consolidated net adjusted leverage exceeding and sustaining above 2.0x beyond FY23 will result in a rating downgrade.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on STL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

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 in March 2018 with promoters owning 70.4% stake.

CONSOLIDATED FINANCIAL SUMMARY

Particulars	**FY22**	**FY21**
Net revenue (INR million)	23,237	18,636
EBITDA (INR million)	2,060	1,884
EBITDA margin (%)	8.9	10.1
EBITDA interest coverage (x)	11.6	11.8
Net leverage (x)	3.2	1.9
Source: STL, Ind-Ra		

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outl	
	Rating Type	Rated Limits (million)	Rating	22 October 2021	23 Octobe 2020
Issuer rating	Long-term	-	IND AA-/Stable	IND AA-/Stable	IND AA-/Sta
Term loan	Long-term	INR1,150	IND AA-/Stable	-	-
Fund-based working capital limits	Long-/short-term	INR2,810	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/ A1+
Non-fund-based working capital limits	Long-/short-term	INR1,137	IND AA-/Stable/IND A1+	IND AA-/Stable/IND A1+	IND AA-/Stable/ A1+
CP	Short-term	INR800	IND A1+	IND A1+	IND A1+

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loans	Low
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.

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APPLICABLE CRITERIA

Evaluating Corporate Governance

Corporate Rating Methodology

Short-Term Ratings Criteria for Non-Financial Corporates

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