SANDHAR
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***Ref: STL /SE/ 2023-24/ REG-30/40***

***Dated: 20th October, 2023***

**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 Scrip Code: 541163; NSE: Sandhar**

**Sub: Renewal of Credit Rating of Sandhar Technologies Limited's Debt Facilities.**

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 and Short Term Issuer Rating of Sandhar Technologies Limited's Debt Facilities 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 September 2023** | **21 October 2022** | **22 October 2021** | **23 October 2020** |
| Issuer rating | Long-term | - | - | WD | IND AA-/Stable | IND AA-/Stable | IND AA-/Stable |
| Fund-based working capital limit | Long-term/Short-term | INR2,710 | 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 limit | Long-term/Short-term | INR1,137 | IND AA-/Stable / IND A1+ | - | IND AA-/Stable / IND A1+ | IND AA-/Stable / IND A1+ | IND AA-/Stable / IND A1+ |
| CP | Short-term | INR800 | IND A1+ | | IND A1+ | IND A1+ | IND A1+ |
| Term loan | Long term | INR1,150 | IND AA-/Stable | | IND AA-/Stable | - | - |

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

This is for your information and records.

Thanking you,

Yours Faithfuly,

**FOR SANDHAR TECHNOLOGIES LIMITED**

Komal Malik

Digitally signed by Komal Malik
Date: 2023.10.20 15:44:42 +05'30'

**KOMAL MALIK**
**(COMPANY SECRETARY & COMPLIANCE OFFICER)**

**Encl: As Above**

# India Ratings Affirms Sandhar Technologies's Debt Facilities at 'IND AA-'/Stable & CPs at 'IND A1+'

Oct 20, 2023 | Auto Components & Equipments

India Ratings and Research (Ind-Ra) has affirmed Sandhar Technologies Limited's (STL) debt instruments as follows:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating/ Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Fund-based working capital limits | - | - | - | INR2,710 (reduced from INR2,810) | IND AA-/Stable/ IND A1+ | Affirmed |
| Non-fund based working capital limits | - | - | - | INR1,137 | IND AA-/Stable/IND A1+ | Affirmed |
| Commercial Paper (CP) | - | - | Up to 365 days | INR800 | IND A1+ | Affirmed |
| Term loan | - | - | FY27 | INR1,150 | IND AA-/ Stable | Affirmed |

**ANALYTICAL APPROACH:** Ind-Ra continues to take 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, aluminum die casting and sheet metal components. The company has a presence across vehicle segments including two wheelers (2Ws; accounted for 56% of its FY23 revenue), three wheelers (1%), passenger vehicles and commercial vehicles (22%), OHVs (16%), and others (5%). While the company mainly caters to domestic original equipment manufacturers (OEMs), it derived 15% of its FY23 revenue from its overseas subsidiary (FY22: 16%).

STL is the 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 the single-source supplier of wheel assemblies to TVS and Royal Enfield, and operator cabins for excavators to JCB India Limited. It also plans commence smart-lock manufacturing in FY24 that would cater to increasing demand from OEMs.

**Improvement in FY23 Revenue; likely to Further Increase over FY24-FY26:** STL's revenue increased 25.18% yoy, beating the industry's average growth, to INR29,089 million in FY23 (FY22: INR23,237 million), driven by an increase in volume as well as higher realisation. The revenue growth was also supported by the development of new products in the 2W segment, higher revenue from most of the vehicle segments and increased share of business from some of the major OEMs. In 1QFY24, its revenue stood at INR8,289 million (1QFY23: INR6,750 million; 1QFY22: INR4,100 million; 1QFY21: INR1,293 million), on account of product addition and healthy demand from the existing customers.

Ind-Ra expects STL's revenue to remain INR32,000 million-35,000 million in FY24, led by (i) likely higher demand owing to higher production volumes in the auto sector and (ii) a ramp-up in operations of the recently commissioned plants.

**Capex to Support Incremental Scale:** STL is incurring a INR5,490-million capex over FY22-FY24 (FY23: INR2,566 million; FY22: INR2,970 million) towards increasing products to support overall increase in its revenue. The company's new projects in India comprise four plants for sheet metal components, one for surface mount technologies, and two plants for machining for casting. Its Romania plant provides aluminum die-casting. As per the management, these plants have already started operations. The company's all projects put together have the potential to generate incremental revenue of INR20,000 million-25,000 million, thus increasing the scale of operations significantly, although the ramp-up would be gradual. Ind-Ra will continue to monitor the plant development and any significant delay in commencing or a timely ramp-up of new projects could impact the ratings adversely.

**Liquidity Indicator - Adequate**: STL's average monthly utilisation of its fund-based working capital limits was 16.2% during the 12 months ended August 2023. The company had cash and equivalents of INR126 million at FYE23 (FYE22: INR100 million). The cash flow from operations improved to INR2,785 million in FY23 (FY22: INR362 million), due to improved working capital cycle, supported by sustained EBITDA margins of 8.6%. This, coupled with its planned capex, led to the free cash flow to turn positive to INR83 million in FY23 (FY22: negative INR2,669 million). The company is likely to spend about INR1,800 million in FY24, largely towards new projects and product developments.

The working capital cycle reduced to 37 days in FY23 (FY22: 52), mainly due to lower receivable days of 45 (70) partly offset by lower creditors period at 52 days (65) as the company made payments to medium and small enterprises within the stipulated time period. Ind-Ra expects the working capital cycle to remain at similar levels in FY24-FY25, and the free cash flow could be positive over the medium term amid controlled spending on capex and its healthy profitability.

The management stated that it would undertake only maintenance capex of INR850 million-1,000 million from FY25. Furthermore, as per the management, the company would be making minimum investments in its JVs and would focus on debt repayments in order to decrease long-term debt over the medium term. STL has scheduled debt repayments of INR872 million and INR912 million in FY24 and FY25, respectively.

**Support to Subsidiaries and JVs:** STL's subsidiaries accounted for more than 75% of the consolidated debt in FY23 (FY22: 52%) while the EBITDA accounted for only around 18% (24%). The increase in the debt levels of its subsidiaries was: 1) new capex being incurred at subsidiaries' level which have yet to ramp up, and 2) 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. Although revenue from the subsidiaries increased on a year-on-year basis, the combined net leverage increased to 9.3x in FY23 (FY22: 5.5x). While the subsidiaries' revenue improved in FY22-FY23, the returns on investment generated from its subsidiaries were much lower than the standalone performance. Ind-Ra expects the subsidiaries' performance to improve yoy over the next two-to-three years, with the ramp-up of the operations in the projects.

The company's JVs are in the nascent stage. As per the management, all of the JVs performance have improved and turned positive in terms of profitability. 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 FYE23, 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 INR258 million at FY23 (FY22: INR372 million).

**Decline in EBITDA Margins:** The consolidated reported EBITDA margins moderated to 8.6% in FY23 (FY22: 8.9%), mainly due to significant fluctuations in raw material costs, research and development costs incurred for new products, coupled with a revision in pricing strategy with customers, which more than offset the positive impact of better improved operating leverage. During 1QFY24, the consolidated EBITDA margin stood at 8.8% (1QFY23: 8.1%) amid better price absorption and softening of raw material prices. Ind-Ra expects the EBITDA margins to improve by 75bp-100bp yoy in FY24, as 2HFY24 margins are likely to be higher than that in 1HFY24 as the management expects higher efficiency after the ramping up of its operations in the new projects.

**Moderate Credit Metrics; Improvement Likely from FY24:** The company's consolidated gross debt increased to INR5,641 million in FY23 (FY22: INR5,368 million), mainly on account of the company incurring significant capex over FY22-FY23. Ind-Ra also has considered leases, guarantees provided by the company to its JVs and the acceptances as a part of the debt. After adjusting the same, the company's net adjusted leverage (net adjusted debt /operating EBITDA) reduced to 2.8x in FY23 (FY22: 3.2x).

The interest coverage (operating EBITDA/interest expense), although remained strong, declined to 7.0x in FY23 (FY22: 11.6x) as the interest expenses related to its incremental capex-related debt started coming on the books. Ind-Ra expects the net leverage to remain at close to 2.0x in FY24 as the company plans to complete its capex on new projects. The net leverage and interest coverage are also likely to moderate in FY25-FY26 from its FY22-FY23 levels.

**Significant Revenue Concentration**: STL continues to have significant revenue concentration in the 2W segment. In FY23, the revenue contribution from its top two customers - HMC and TVS – was significant at 47% while that from its top 10 customers was 78.5% (FY22: 79.5%; FY21: 51%). While the company is focusing on revenue diversification into passenger vehicles and OHV segments and the customer diversification in the 2W space by adding new OEMs to its clientele, the revenue concentration is likely to increase in the near term as majority of its new plants cater to HMC and TVS.

**Standalone Financials:** On a standalone basis, STL's revenue stood at INR23,974 in FY23 (FY22: INR19,410 million), EBITDA was INR2,046 million (INR1,660million). Th net adjusted leverage was 0.7x in FY23 (FY22: 1.6x) and the interest coverage was 13.2x (16.7x).

# Rating Sensitivities

**Positive:** A substantial increase in the consolidated revenue and profitability with improved product and customer diversification while 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 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 Limited and the National Stock Exchange in March 2018 with promoters owning a 70.4% stake.

**FINANCIAL SUMMARY- CONSOLIDATED**

| Particulars | FY23 | FY22 |
|---|---|---|
| Revenue from operations (INR million) | 29,089 | 23,237 |
| EBITDA (INR million) | 2,491 | 2,060 |
| EBITDA margin (%) | 8.6 | 8.9 |
| Interest coverage (x) | 7.0 | 11.6 |
| Net adjusted leverage (x)* | 2.8 | 3.2 |
| Source: STL; Ind-Ra<br>*including acceptances, guarantees and lease liabilities | | |

# Non-Cooperation with previous rating agency

Not applicable

# 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 | Rating Type | Rated Limits (million) | Current Rating/ Outlook | Historical Rating/Outlook | | | |
|---|---|---|---|---|---|---|---|
| | | | | 22 September 2023 | 21 October 2022 | 22 October 2021 | 23 October 2020 |
| Issuer rating | Long-term | - | - | WD | IND AA-/Stable | IND AA-/Stable | IND AA-/Stable |
| Fund-based working capital limit | Long-term/Short-term | INR2,710 | IND AA-/Stable / IND A1+ | - | IND AA-/Stable / IND A1+ | IND AA-/Stable / IND A1+ | IND AA-/Stable / IND A1+ |
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| CP | Short-term | INR800 | IND A1+ | - | IND A1+ | IND A1+ | IND A1+ |
| Term loan | Long term | INR1,150 | IND AA-/Stable | - | IND AA-/Stable | - | - |

# 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.

# Contact

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## APPLICABLE CRITERIA

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

## DISCLAIMER