SANDHAR
Growth. Motivation. Better Life

Ref: STL / REG-30 /BSE / NSE / 2018-19 /05

Dated: 23rd May, 2018

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

Scrip Code: 541163	*Symbol: SANDHAR*

Ref: Revision in Credit Rating

Re: Intimation under Regulation 30 (4) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

We wish to inform you that ICRA Limited has upgraded the Fund-based – Working Capital Facilities, Fund-based/Non-fund Based – Working Capital Facilities and Unallocated Limits as per the details given below:

Instrument	Previous Rated Amount (Rs. In Crore)	Current Rated Amount (Rs. Crore)	Rating Action
Fund-based – Working Capital Facilities	20.0	50.0	Rating upgraded from [ICRA]A+ (stable) to [ICRA]AA-(stable)
Fund-based/Non-fund Based – Working Capital Facilities	25.0	25.0	Rating upgraded from [ICRA]A+ (stable)/[ICRA]A1 to [ICRA]AA-(stable)/[ICRA]A1+
Unallocated Limits	5.0	5.0	Rating upgraded from [ICRA]A+ (stable) to [ICRA]AA-(stable)
Non-fund Based – Working Capital Facilities	30.0	0.0	
Total	**80.0**	**80.0**	

A copy of the report from the credit rating agency covering the rationale for revision in credit rating is enclosed for your information.

We request you to take the same on record.

Thanking You

Yours faithfully,

FOR SANDHAR TECHNOLOGIES LIMITED

SANDHAR TECHNOLOGIES LIMITED STL

(Arvind Joshi)
Whole-Time Director,
Chief Financial Officer &
Company Secretary
DIN: 01877905

Encl: As above

ICRA

Received on 23rd May, 2018 by e-mail.

Sandhar Technologies ltd

May 17, 2018

Sandhar Technologies Ltd: Ratings upgraded to [ICRA]AA-/[ICRA]A1+

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Working Capital Facilities	20.0	50.0	Rating upgraded from [ICRA]A+ (stable) to [ICRA]AA-(stable)
Fund-based/Non-fund Based – Working Capital Facilities	25.0	25.0	Rating upgraded from [ICRA]A+ (stable)/[ICRA]A1 to [ICRA]AA-(stable)/[ICRA]A1+
Unallocated Limits	5.0	5.0	Rating upgraded from [ICRA]A+ (stable) to [ICRA]AA-(stable)
Non-fund Based – Working Capital Facilities	30.0	0.0	-
Total	**80.0**	**80.0**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating assigned to the bank facilities of Sandhar Technologies Ltd (STL) from [ICRA]A+ (pronounced ICRA A plus) to [ICRA]AA- (pronounced ICRA double A minus). The outlook on the long-term rating is Stable[1]. ICRA has also upgraded the short-term rating assigned to the bank facilities of STL from [ICRA]A1 (pronounced ICRA A one) to [ICRA]A1+ (pronounced ICRA A one plus). The total rated amount is Rs. 80.0 crore[2].

Rationale

The rating upgrade takes into the account the significant improvement in the financial risk profile of STL following infusion of Rs. 300.0 crore through an Initial Public Offering (IPO) in March 2018. The company utilised a large portion of the proceeds of the IPO along with its cash accruals to prepay a majority of the long-term debt obligations on its books (~Rs. 254.0 crore), which has led to a significant improvement in its capital structure, with the company expected to report gearing of ~0.3 times as of March 31, 2019. The rating upgrade also factors in an improvement in the operational performance of the company in FY2018, driven by strong growth in end user industry; the same also enabled a ramp up in revenues of new businesses which led to a decline in operational losses in these businesses. Strong revenue growth coupled with various cost efficiency measures undertaken by the company aided expansion in operating profit margins (improvement of ~150-160 bps). The reduction in debt coupled with an expectation of continuation of stable operating performance is likely to help the company report healthy debt coverage indicators, with an expected Total Debt/OPBDITA of 1.0 times and NCA/Total debt of 67.4% in FY2019.

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[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

[2] *100 lakh = 1 crore = 10 million*

The rating assigned continue to factor in favourably the company's established market position for various products with leading two-wheeler and four-wheeler Original Equipment Manufacturers (OEM) in the domestic market. STL has a highly diversified product profile across multiple product segments, viz. lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, sheet metal components, door handles, handle bar assemblies, among others. The company's strong product engineering and development capability, coupled with technological collaboration agreements with global players for certain products, has aided the maintenance of a healthy share of business for various OEMs over the years.

While the company remains exposed to segment and client concentration risk, with its two largest customers—Hero Motocorp Limited (HMCL) and TVS Motor Company Limited (TVS)—accounting for ~50% of the company's revenues (at a consolidated level), the risk is, partially mitigated by the company's strong share of business across product segments and the leading market position of the OEMs in the two-wheeler industry. The company continues to be focussed on further diversifying its product profile through various ongoing product development initiatives and collaborations; these initiatives, coupled with an expectation of a favourable demand outlook for its key end-user segments supports ICRA's expectation of healthy revenue growth prospects of STL.

Over the past 3-4 years, STL had made debt-funded investments in new businesses as well as its overseas subsidiary, returns from which are only expected over the medium term. This has led to a moderation in the company's return indicators. An improvement in operating performance during FY2018 supported an uptick in return indicators of STL to an extent; an expectation of improved profitability of new businesses as operations ramp up further would aid strengthening of profitability metrics.

Outlook: Stable

The stable outlook reflects an expectation that STL would record healthy revenue growth over the medium term following further ramp-up in revenues in the aluminium die casting and cabin fabrication businesses, coupled with continued business from its existing customers in the lock sets and mirror assembly segments. An improved scale of operations combined with an improved financial risk profile is also likely to support an expansion in the company's operating margins and help record improved debt coverage indicators. The outlook may be revised to Positive if substantial growth in revenue and profitability, especially for various new businesses, leads to a significant improvement in the company's return indicators. The outlook may be revised to Stable if the ramp up in scale up of operations of various new businesses is slower than expected, leading to a deterioration in the company's return indicators. Furthermore, an adverse impact of any acquisitions undertaken by the company with a view of further enhancing its product profile, on STL's financial risk profile, could also trigger a revision in outlook.

Key rating drivers

Credit strengths

Diversified product profile; established relationship and healthy share of business with several OEMs – STL is a leading auto component manufacturer, with established relationships with OEMs across product segments such as two-wheelers, four-wheelers, and construction equipment. It has a highly diversified product profile with presence across product segments such as lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, sheet metal components, handle bar assemblies, plastic parts, aluminium die casting etc. In addition to the various products manufactured at a standalone level, STL also has a presence in manufacturing of products such as high precision press parts, Audio Video Navigation panels and switches, helmets etc. through its joint ventures, even though the scale of operations for these products segments remains relatively lower. The diversified product profile insulates STL from any downturn in demand for a particular product segment; additionally, the expanding product portfolio gives the company an opportunity to capture a larger portion of its customers' requirements going forward, thereby, providing adequate revenue visibility over the medium term.

Technical collaboration agreements aid product development capabilities – STL has entered into technical collaboration agreements with select international auto component companies for its various product lines. After initially collaborating with Honda Locks Manufacturing Company (Honda Locks) in 1987 for lock kits, STL has also entered into several other technological collaboration agreements for various products (electronic relays, instrument clusters, rear parking sensors etc), with a view of further diversifying its product profile. These technological agreements have added new product lines to STL's product basket and are likely to continue to aid STL's product development capabilities going forward.

Infusion of funds post a successful IPO has strengthened financial risk profile – STL, over the years, had invested significantly towards enhancing its product profile (through acquisitions) and manufacturing capabilities (~Rs. 550 crore over the past five fiscals). As a result, the total debt on the company's books remained high at levels ~Rs. 481.8 crore as on March 31, 2017. In March 2018, STL came out with an IPO, which led to a fund infusion of ~Rs. 300.0 crore through issue of fresh shares. Consequently, the company utilized Rs. 254.0 crore of the IPO proceeds to repay the entire long-term debt obligations on the standalone entity's books. The repayment of debt obligations has led to a significant improvement in the capital structure, with the company expected to report gearing of ~0.3 times as of March 31, 2019 in the absence of any large capex/investment plans for the fiscal. The reduction in debt coupled with an expectation of improved operating performance also supports our expectation of further improvement in credit metrics, with an expected Total Debt/OPBDITA of 1.0 times and NCA/Total debt of 67.4% in FY2019.

Credit challenges

Moderate client and segment concentration risk – While STL has an established presence across both the four-wheelers and the construction equipment segment, the two-wheeler segment constitutes a majority of the revenues (~69% in FY2017). The company is also exposed to moderate customer concentration with its two major customers, HMCL and TVS, contributing ~48% of its revenues in FY2017 (at a consolidated level). The moderate client and segment customer concentration risk is mitigated to an extent by the strong share of business enjoyed by STL with the OEMs; the company also remains focussed on reducing its segment and client concentration risk, through business gains from new customers.

Return indicators have remained at moderate levels, due to debt-funded acquisitions for expanding the business mix and investments towards various new product lines – STL's RoCE has remained at suppressed levels (RoCE of 12-13% over the period FY2015-FY2017), on account of the capex incurred towards enhancing its capacity and investments in new verticals, such as aluminium die cast components, the returns from which are only likely over the medium term. While an improvement in operating profitability in FY2018 helped improve the RoCE to an extent, the same continues to remain at moderate levels; a scale up in operations of the new businesses is likely to lead to a gradual improvement in the company's return indicators over the medium term.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Auto Component Manufacturers

About the company:

Incorporated in 1987, STL is a highly diversified auto component manufacturer, present across product segments such as lock set assemblies, mirror assemblies, cabin fabrication, wheel assemblies, sheet metal components, handle bar assemblies, plastic parts, aluminium die casting etc. The company caters to multiple automotive segments, including two-wheelers, passenger vehicles, commercial vehicles, off-highway vehicles and tractors. It has a wholly owned subsidiary, Sandhar Technologies Barcelona (ST Barcelona), which supplies aluminium spools to seatbelt manufacturers across Europe and North America. STL has several manufacturing facilities in India, two in Spain and one each in Poland and Mexico.

Sandhar Technologies came out with an IPO in March 2018, which helped it raise ~Rs.300 crore of funds through issue of fresh shares; additionally, its PE investor – GTI Capital plans sold 64 lakh shares of the company through a secondary sale (OFS). Post the IPO, the promoter, Mr. Jayant Dawar and his family, hold a stake of 70.14% in the company.

Key financial indicators – Consolidated (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1,513.2	1,626.9
PAT (Rs. crore)	36.7	36.6
OPBDIT/OI (%)	9.6%	9.0%
RoCE (%)	14.4%	12.6%
Total Debt/TNW (times)	1.6	1.6
Total Debt/OPBDIT (times)	2.9	3.4
Interest Coverage (times)	3.4	3.4
NWC/OI (%)	8.9%	11.2%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2018	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 June 2016	Date &Rating in FY2016 April 2015
1	Fund-based-Working Capital Facilities	Long Term	50.0	-	[ICRA]AA- (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
2	Fund-based/ Non-fund based-Working Capital Facilities	Long Term/ Short Term	25.0	-	[ICRA]AA- (stable)/ [ICRA]A1+	[ICRA]A+ (stable)/ [ICRA]A1	[ICRA]A+ (stable)/ [ICRA]A1	[ICRA]A+ (stable)/ [ICRA]A1

3	Unallocated Limits	Long Term	5.0	-	[ICRA]AA- (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)	[ICRA]A+ (stable)
4	Non-fund based-Working Capital Facilities	Short Term	0.0	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based- Working Capital Facilities	-	-	-	50.0	[ICRA]AA- (stable)
NA	Fund-based/ Non-fund based-Working Capital Facilities	-	-	-	25.0	[ICRA]AA-(stable)/[ICRA]A1+
NA	Unallocated Limits	-	-	-	5.0	[ICRA]AA- (stable)

Source: Sandhar Technologies Ltd

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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