Ref: STL /SE/ 2024-25/ REG-30/43

Dated: 18th October, 2024

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

Dear Sir/Madam,

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (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**	**20 October 2023**	**22 September 2023**	**21 October 2022**	**22 October 2021**
Issuer rating	Long-term	-	-	-	WD	IND AA-/Stable	IND AA-/Stable
Fund-based working capital limit	Long-term/Short-term	INR2,710 (Reduced from 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 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	INR 800	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

Yashpal Jain Digitally signed by Yashpal Jain
Date: 2024.10.18 20:04:51
+05'30'

Yashpal Jain
(CHIEF FINANCIAL OFFICER & COMPANY SECRETARY)

Encl: As Above

India Ratings & Research
A Fitch Group Company

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

Oct 18, 2024 | Auto Components & Equipments

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

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Commercial paper*	-	-	Up to 365 days	INR800	IND A1+	Affirmed
Fund-based working capital limits	-	-	-	INR2,710	IND AA-/Stable/IND A1+	Affirmed
Non-fund-based working capital limits	-	-	-	INR1,137	IND AA-/Stable/IND A1+	Affirmed
Term loan	-	-	FY27	INR1,150	IND AA-/Stable	Affirmed

*Carved out of working capital limits

Analytical Approach

Ind-Ra continues to fully consolidate STL's subsidiaries while arriving at the ratings as all companies operate in a similar line of business and STL has a strong operational and management control over them. The agency has also partially consolidated STL's joint ventures (JVs) 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.

Detailed Rationale of the Rating Action

The affirmation reflects STL's strong business profile, and continued healthy scale of operations and EBITDA margins, leading to an improvement in the credit metrics during FY24. However, the ratings are constrained by the company's high customer concentration risks.

List of Key Rating Drivers

Strengths
- Diversified product offering with strong competitive positioning
- Revenue growth in FY24; likely to increase further over FY25-FY27
- Capex to support incremental scale
- Support to subsidiaries and JVs
- Stable EBITDA margins
- Improvement in credit metrics in FY24; Likely to improve further in FY25

Weaknesses
- Significant revenue concentration

Detailed Description of 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; accounted for 57.8% of its FY24 revenue), passenger vehicles and commercial vehicles (21.5%), OHVs (15.4%), and others (5.3%). While the company mainly caters to domestic original equipment manufacturers (OEMs), it derived 14% of its FY24 revenue from its overseas subsidiary (FY23: 15%).

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.

Revenue Growth in FY24; Likely to Improve Further over FY25-FY27: STL's revenue increased 21% yoy to INR35,211 million in FY24, beating the industry's average growth, driven by an increase in volumes as well as higher realisation. The revenue growth was also supported by the development of new products in the 2W segment, partial ramp-up of new plants, higher revenue from most of the vehicle segments and increased share of business from some of the major OEMs. In 1QFY25, its revenue stood at INR9,126 million (1QFY24: INR8,289 million; 1QFY23: INR6,750 million; 1QFY22: INR4,100 million), on account of product addition and healthy demand from existing customers.

Ind-Ra expects STL's revenue to increase 12%-15% yoy in FY25, led by likely higher demand owing to higher production volumes in the auto sector, and ramping up of operations at the recently commissioned plants.

Capex to Support Incremental Scale: STL incurred a total capex of INR4,938 million during FY23-FY24 (FY24: INR2,372 million; FY23: INR2,566 million) towards expanding its product portfolio to support an overall increase in its revenue. The company also has a planned capex of around INR2,500 million in FY25 towards the new plants and product development. The company's new projects in India comprise of four plants for sheet metal components, one for surface mount technologies, and two for machining for casting. Its Romania plant provides aluminium die-casting. As per the management, most of these plants have already started operations, although full commercialisation is yet to take place. 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 the new projects could impact the ratings adversely.

Support to Subsidiaries and JVs: STL's subsidiaries accounted for more than 73% of the consolidated debt in FY24 (FY23: 76%) but merely around 26% of the EBITDA (18%). The increase in the debt levels of its subsidiaries was to fund: 1) capex to increase capacity, which is yet to ramp up, and 2) historically high working capital requirements of Sandhar Technologies Barcelona (STB), as it derives most of its revenue from exports, mainly to three Tier 1 customers. The revenue from the subsidiaries increased on a year-on-year basis, and most of its subsidiaries turned EBITDA positive in FY24, due to cost optimisation coupled with improved capacity utilisation. While the revenue from subsidiaries improved in FY22-FY24, the return on investments generated from them was much lower STL on a standalone basis, on account of the ongoing slowdown in the overseas market. 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.

As per management, the performance of all JVs has improved and the subsidiaries have turned profitable in FY24; Ind-Ra expects the operations at JVs to scale up over the medium term. However, the return on investment and profitability in its subsidiaries and JVs is likely to remain monitorable in the near term.

At FYE24, STL had extended corporate guarantees/standby letters of credit for loans extended to Sandhar Han Sung Technologies Private Limited and Sandhar Amkin Industries Private Limited ('IND BBB+'/Stable); the combined value of guarantees stood at INR153 million at FYE24 (FYE23: INR258 million). Ind-Ra believes STL may be required provide interim support to its overseas subsidiaries in FY25, given the high debt levels.

Stable EBITDA Margins: STL's EBITDA margins have largely remained in the range of 8.5%-10% over FY20-FY24. The consolidated EBITDA margins improved but remained modest at 9.7% in FY24 (FY23: 8.6%), mainly due to a moderation in raw material costs, coupled with a revision in pricing strategy with customers. During 1QFY25, the consolidated EBITDA margins stood at 9.4% (1QFY24: 8.8%) amid better price absorption and softening of raw material prices. Ind-Ra expects the EBITDA margins to remain between 9.5% and 10% in FY25, as 2HFY25 margins are likely to be higher than 1HFY25 as the management expects higher efficiency after the ramping up of its operations in the new projects, coupled with the likely improvement in the global demand scenario.

Improvement in Credit Metrics in FY24; Likely to Improve Further in FY25: The consolidated gross debt increased to INR6,479 million at FYE24 (FYE23: INR5,641 million), mainly on account of the company incurring significant capex over FY22-FY24. Ind-Ra has also considered leases, guarantees provided by the company to its JVs and the acceptances as a part of debt. After adjusting the same, the company's net adjusted leverage (net adjusted debt/operating EBITDA) reduced to 2.2x in FY24 (FY23: 2.8x), despite higher debt levels, mainly on account of higher EBITDA generation of INR3,406 million (INR2,491 million). The net adjusted leverage has remained higher than Ind-Ra's negative trigger over FY22-FY24, on account of higher capex plans which are yet to start generating EBITDA. Ind-Ra had anticipated the net adjusted leverage to reduce to around 2.0x in FY24, and is likely to reduce below 2.0x in FY25 as the newly commissioned plants will start generating revenue while the company also completes its pending capex on new projects.

The interest coverage (operating EBITDA/interest expense) reduced to 6.6x in FY24 (FY23: 7.0x), but remained strong, owing to an increase in interest expense related to the incremental debt taken to fund capex; this was largely in line with Ind-Ra's expectations. Thus, Ind-Ra expects the credit metrics to moderate in FY25-FY26 from FY22-FY23 levels.

Significant Revenue Concentration: STL continues to have significant revenue concentration in the 2W segment. In FY24, the revenue contribution from its top two customers (HMC and TVS) was 48.5% and the top 10 customers was 77.4% (FY23: 78.5%; FY22: 79.5%). While the company is focusing on revenue diversification into passenger vehicles and OHV segments, and 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 INR27,157 million in FY24 (FY23: INR23,974 million) and EBITDA was INR2,518 million (INR2,046million). The net adjusted leverage was 2.0x in FY24 (FY23: 2.0x) and the interest coverage was 18.3x (13.2x).

Liquidity

Adequate: STL's average monthly utilisation of its fund-based working capital limits was 19.3% during the 12 months ended August 2024. The company had cash and equivalents of INR433 million at FYE24 (FYE23: INR126 million). The cash flow from operations remained strong at INR2,257 million in FY24 although slightly moderated from FY23 (FY23: INR2,741 million), due to a slightly elongated working capital cycle, which was offset by sustained EBITDA. Consequently, the cash flow margins declined to 6.4% in FY24 (FY23: 9.4%) but were healthy. The free cash flow turned negative to INR266 million in FY24 (FY23: INR38 million) mainly due to a higher capex of INR2,372 million (INR2,566 million. The company is likely to spend about INR2,500 million in FY25, largely towards new projects and product developments. Ind-Ra expects the free cash flow to remain negative in FY25 before turning positive in FY26 amid controlled spending on capex and its healthy profitability.

The working capital cycle slightly elongated to 41 days in FY24 (FY23: 37 days), mainly due to an increase in the receivable period to 47 days (45 days) and a decline in the payable period to 55 days (59 days) 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 FY25-FY26.

The management stated that it would undertake only maintenance capex of INR850 million-1,000 million from FY26. Furthermore, as per the management, the company would be making minimum investments in its JVs and would focus on debt repayments to decrease long-term debt over the medium term. STL has scheduled debt repayments of INR1,067 million and INR1,089 million in FY25 and FY26, respectively.

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.

About the Company

STL manufactures locking systems, mirror assemblies, sheet metal components, plastic injection mouldings, wheel assemblies, handlebars 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 of India Limited in March 2018 with promoters owning a 70.4% stake.

Key Financial Indicators

Particulars	FY24	FY23
Revenue from operations (INR million)	35,211	29,089
EBITDA (INR million)	3,406	2,491
EBITDA margin (%)	9.7	8.6
Interest coverage (x)	6.6	7.0
Net adjusted leverage (x)*	2.16	2.80
Source: STL; Ind-Ra		
*including acceptances, guarantees and lease liabilities		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/ Outlook	Historical Rating/Outlook			
				20 October 2023	22 September 2023	21 October 2022	22 October 2021
Issuer rating	Long-term	-	-	-	WD	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+
Commercial paper	Short-term	INR800	IND A1+	IND A1+	-	IND A1+	IND A1+
Term loan	Long term	INR1,150	IND AA-/Stable	IND AA-/Stable	-	IND AA-/Stable	-

Bank wise Facilities Details

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Non-fund based limits	Low
Commercial paper	Low
Fund-based working capital limit	Low
Term loan	Low

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

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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.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

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For more information, visit www.indiaratings.co.in.

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APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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