

Multiple Growth and Margin levers ahead

- Sandhar reported decent numbers in a tough quarter. EBITDA margin contracted 454bps QoQ mainly attributed to negative operating leverage. Despite weak 1Q, the management has guided 30% revenue growth in FY22 led by strong growth in Cabin and Fabrication, Sheet Metal and Aluminum Die Casting (ADC) business.
- For the Vision and Locking systems, the company is increasing presence in the scooter segment, winning new business and increasing content per vehicle. The company has received orders for mirrors for newly launched RE Meteor and TVS Motors. The company also expects strong revenue growth (+35% YoY) from Honda cars.
- The ADC segment is showing impressive growth led by addition of new components (cylinder block and hubs), value addition (Aluminum to magnesium content and winning new business from TVS and HMSI).
- The international subsidiaries are also witnessing sharp improvement reported flat revenue QoQ with 12.6%. Bosch (one of their largest customers) has awarded a new business in Romania which will contribute to incremental revenues of Euro 10mn with healthy margins of +20%.
- Although Cabin and fabrication business revenue slid in 1Q due to lockdown restriction, expect sharp recovery ahead led by pick up in infra and construction activities and new business orders from Hyundai Constructions and Sanny Constructions.
- The company is looking for impressive revenue growth from sheet metal and targeting revenue to be Rs 5bn in 2 years up from Rs.2bn in FY21 led by adding new clients TVS and HMSI.
- The company has also won many new businesses for supplying components in Electric Vehicles which will aid significant growth ahead
- For Vision and Locking systems, increasing presence in the scooter segment, winning new business with improving share of high value products and premiumization to aid revenue growth and margin expansion. We anticipate a 60% EPS CAGR over FY21-23E and maintain our Buy rating with a upgraded TP of Rs 441(18x FY23E EPS).

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	4,101	1,294	217.0	6,420	(36.1)
Total Expense	3,790	1,420	166.8	5,642	(32.8)
EBITDA	311	(127)	(345.1)	778	(60.1)
Depreciation	239	215	10.7	242	(1.5)
EBIT	72	(342)	(121.1)	536	(86.5)
Other Income	16	7	118.8	31	(48.8)
Interest	39	31	26.3	40	(2.4)
EBT	50	(365)	(113.6)	527	(90.6)
Tax	(3)	(90)	(96.2)	103	(103.3)
RPAT	21	(310)	(106.8)	403	(94.8)
APAT	21	(310)	(106.8)	403	(94.8)
			(bps)		(bps)
Gross Margin (%)	43.8	46.8	(299)	40.3	346
EBITDA Margin (%)	7.6	(9.8)	1738	12.1	(454)
NPM (%)	0.5	(24.0)	2451	6.3	(575)
Tax Rate (%)	(6.9)	24.6	(3151)	19.5	(2646)
EBIT Margin (%)	1.8	(26.5)	2821	8.3	(658)

CMP	Rs 277		
Target / Upside	Rs 441 / 60%		
NIFTY	16,238		
Scrip Details			
Equity / FV	Rs 602mn / Rs 10		
Market Cap	Rs 17bn		
	USD 225mn		
52-week High/Low	Rs 317 / 175		
Avg. Volume (no)	1,60,754		
Bloom Code	SANDHAR IN		
Price Performance			
1M	3M	12M	
Absolute (%)	4	44	33
Rel to NIFTY (%)	0	35	(12)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	70.3	70.3	70.4
MF/Banks/FIs	17.2	18.8	16.2
FIs	1.5	1.6	1.7
Public / Others	10.9	9.3	11.7

Valuation (x)

	FY21A	FY22E	FY23E
P/E	28.8	16.1	11.3
EV/EBITDA	10.3	7.1	5.3
ROE (%)	7.4	11.9	14.7
RoACE (%)	7.9	11.7	13.6

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	18,636	23,118	27,040
EBITDA	1,884	2,599	3,110
PAT	578	1,032	1,476
EPS (Rs.)	9.6	17.1	24.5

Analyst: Abhishek Jain

Tel: +91 22 40969739

E-mail: abhishekj@dolatcapital.com

Associate: Kripashankar Maurya

Tel: +91 22 40969741

E-mail: kripashankarm@dolatcapital.com

Strong recovery expected from 2Q

Although 1Q was a weak quarter we see strong earnings growth ahead driven by 1) revival in 2W volumes; 2) increase in content per vehicle in the Locks and Mirrors division; 3) ramp up in Aluminum die casting business and 4) strong growth in Cabin and fabrication business led by pick up in construction activities and 5) cost control initiatives.

Moreover, Sandhar is a supplier to all existing EV players in the domestic market and stands to remain unaffected by the advent of EVs as none of their main line products are powertrain dependent. Company is adequately equipped to add any new product lines with respect to EVs.

Resilient Subsidiaries performance

The international subsidiaries are witnessing sharp uptick in performance. Margins have improved significantly due to restructuring and cost saving exercises. Management expects healthy order growth from existing as well as new clientele for the Barcelona subsidiary. Bosch (one of their largest customers) has awarded a new business in Romania which will contribute to incremental revenues of Euro 10mn over 2 years with healthy margins of +20%.

Losses to reduce in JVs

Revenue contribution from Joint Ventures is expected to improve significantly and reduce losses due to economies of scale and new orders from OEMs for helmets and headgears (Sandhar Amkin). Sandhar Han Sung (high precision press parts, insert moulded contact plates, and switches) has delivered healthy growth and is expected to become profitable in FY21. Sandhar Whetron (parking sensors) to start delivering to 4W OEMs from FY22.

Conference call highlights

- Management is witnessing improvement of business and guided 30% revenue growth in FY22 with strong margin expected in the range of 11-11.5% going forward. Also expect Revenue to grow at 30% CAGR organically over 3-4 years led by robust order book.
- Company targets asset turnover of 2-2.5 times and ROE of 22-25% for any business it ventures in.
- Orders looks strong from August-21 due to built-up of stock before festive seasons. Exports have been growing robustly and expected to grow further going ahead. Q2 and Q3 poised to be strong due to OEM business growing for Honda and Hero while Eicher has been slow.
- Gross margin expansion on QoQ led by better efficiency and hedge policy. Expect GM to improve further.
- Segment revenue mix for 1Q is PV- 29%, 2W-51%, OH -14%, Others- 6%
- Revenue contribution from Domestic and Export markets stood at 78/22% respectively in Q1FY22.

Aluminum Die Casting business

- Segment outperformance was attributed to winning new business from TVS and Honda motors cycle along with new business acquisition by overseas subsidiaries. Company started supplying to Honda motors from this quarter as well.
- Overseas business margins remained strong at 13%.

- **Honda motorcycle** – The company expect die casting revenue from HONDA MC to be around ~Rs.1bn in next 1-2 years and also expect to sign new business for high end bikes. Expect Honda MC's share to be 10% of overall business in next 2 years.

Sheet metal

- Expecting impressive revenue growth from sheet metal and targeting revenue to be Rs.5bn in 2 years up from Rs.2bn in FY21 led by new business from TVS, Hero and Honda.
- The company expect sheet metal revenue from HONDA MC to be around ~Rs.1bn.

Cabin and fabrication business

- Expect 15-20% growth in revenue in this segment with 150bps margin expansion led by operating leverage and new order.

Locking

- Locking system business underperformed in Q1 due to non-operation of some clients, expecting strong growth in remaining fiscal. Looking for 25- 28% in FY22.
- Revenues from Honda Cars expected to grow by 35% in FY22 from locking system business and margin to be lower due to adverse product mix.

Joint Ventures

- JV performance improved YoY with revenues growing 3x to Rs. 155mn while EBITDA declined 11% YoY to Rs. -19.4mn (vs Rs. -1.75mn in Q1FY21).
- JV businesses expected to turn profitable or at least reach breakeven which will help trim losses in FY22 compared to FY21.

International Subsidiaries

- Romanian plant to be operational in FY22 and will help to improve growth in overseas markets.
- Q1 EBITDA margin improve 70bps YoY basis. However down on QoQ basis due to RM cost prices being passed on half yearly lag.
- Revenue from Hanshin Auto Tech stood Rs. 22.9mn
- Revenue from Hand Sung Tech stood Rs. 12.7mn
- Revenue from Jinyoung Sandhar Mechatronics stood at Rs. 81.2mn

EV development

- Electric scooter segment contributed Rs.120mn revenue in Q1. Supply started to players like Ather, Ola (Ignition system talks) and other big players. In Global market, supply has started to players like continental, Porsche,etc.

Capex

- FY22 capex for would be in range of Rs.900-1000mn. Extra capex may come for inorganic growth or on new product acquisition. Depreciation would be approx. of Rs 1bn.

Antenna

- Antenna business has contributed Rs. 65.3mn in Q1 and has outperformed QoQ and YoY basis. Company is the sole supplier for all models launched by Hyundai and KIA for at least the next 12 months.
- Partner with winnercom which is one of the largest player in Sharks and Antennas, Company has started exporting to some European OEMs as well. Targeting to be market leader in Antenna segment in India.

Debt

- Gross debt in Q1 stood Rs. 2.73 bn largely attributed to working capital @ 4%. Long term debt in India is NIL, while overseas debt is Rs.940mn (Barcelona for Romania expansion). Generated Cash profit of Rs. 290mn in Q1.

Exhibit 1: Change in Estimates

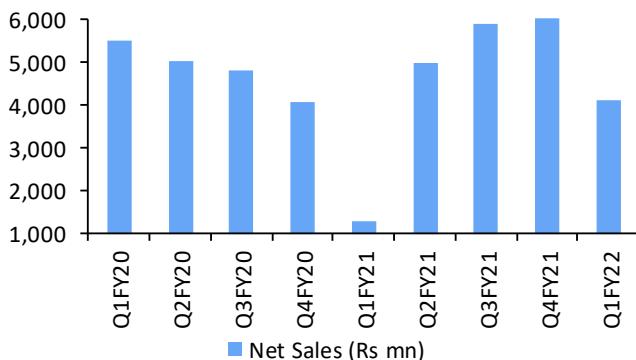
Rs Mn	FY22E			FY23E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	23,118	22,421	3.1	27,040	26,162	3.4
EBITDA	2,599	2,478	4.9	3,110	3,016	3.1
EBITDA margin(%)	11.2	11.1	19bps	11.5	11.5	(3)bps
APAT	1,032	999	3.4	1,476	1,418	4.1
EPS	17.1	16.6	3.4	24.5	23.6	4.1

Source: DART, Company

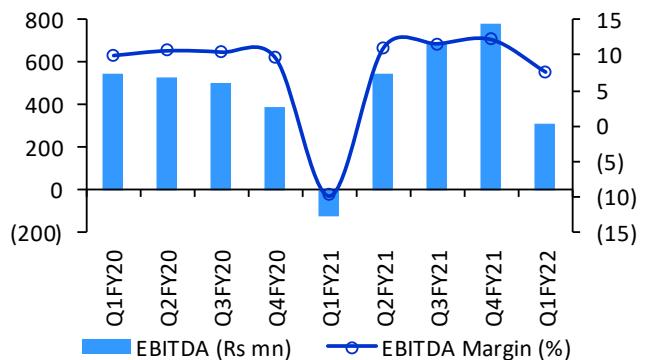
Exhibit 2: Assumption Sheet

	FY19	FY20	FY21	FY22E	FY23E
Locking Systems	5,053	4,088	3,880	4,501	4,951
(% YoY)	14	(19)	(5)	16%	10%
Vision Systems	2,440	1,749	1,510	1,782	1,996
(% YoY)	5	(28)	(14)	18%	12%
Sheet Metal Components	2,935	2,243	2,320	3,132	3,915
(% YoY)	14	(24)	3	35%	25%
Cabins & Fabricators	2,896	2,373	2,710	3,794	4,629
(% YoY)	104	(18)	14	40%	22%
Aluminium Die Casting	3,810	3,734	3,880	4,850	5,820
(% YoY)	30	(2)	4	25%	20%
Assemblies	3,453	3,076	1,810	2,100	2,415
(% YoY)	50	(11)	(41)	16%	15%
Others	2,820	2,171	2,530	2,960	3,315
(% YoY)	(19)	(23)	17	17%	12%
Total	23,406	19,434	18,640	23,118	27,040
(% YoY)	20	(17)	(4)	24	17

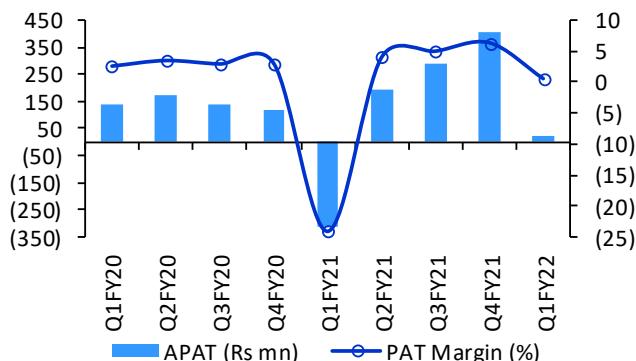
Source: Company, DART

Exhibit 3: Consolidated Net Revenue (Rs mn)


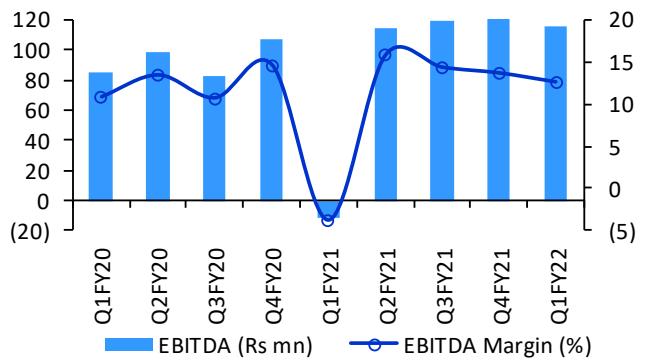
Source: Company, DART

Exhibit 4: EBITDA (Rs mn) and EBITDA Margin


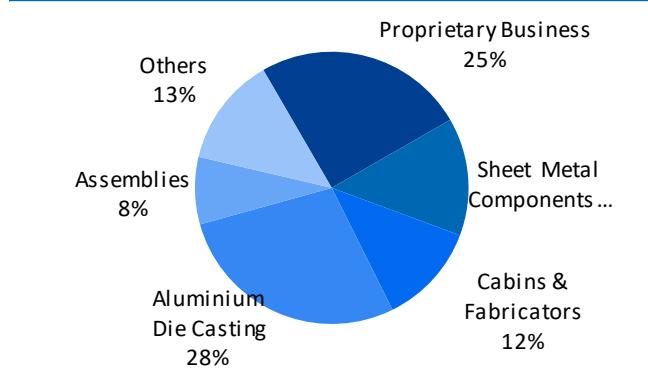
Source: Company, DART

Exhibit 5: APAT (Rs mn) vs PAT Margin


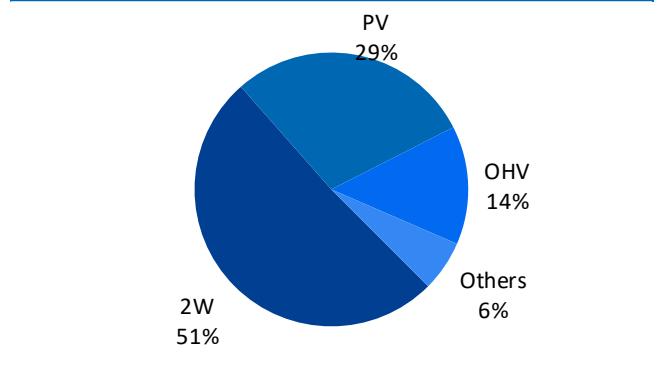
Source: Company, DART

Exhibit 6: Subsidiary margin performance


Source: Company, DART

Exhibit 7: Product wise Revenue (Q1FY22)


Source: Company, DART

Exhibit 8: Segment wise Revenue mix (Q1FY22)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	19,434	18,636	23,118	27,040
Total Expense	17,470	16,752	20,519	23,930
COGS	11,136	10,921	13,432	15,764
Employees Cost	2,909	2,777	3,250	3,705
Other expenses	3,426	3,053	3,838	4,462
EBIDTA	1,964	1,884	2,599	3,110
Depreciation	984	939	1,042	1,093
EBIT	980	945	1,558	2,017
Interest	205	160	224	187
Other Income	100	108	110	110
Exc. / E.O. items	0	0	0	0
EBT	875	892	1,444	1,940
Tax	211	202	327	439
RPAT	570	578	1,032	1,476
Minority Interest	0	0	0	0
Profit/Loss share of associates	(95)	(112)	(85)	(25)
APAT	570	578	1,032	1,476

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	602	602	602	602
Minority Interest	36	37	37	37
Reserves & Surplus	7,023	7,442	8,696	10,248
Net Worth	7,625	8,044	9,298	10,850
Total Debt	2,647	2,915	2,315	1,915
Net Deferred Tax Liability	175	160	160	160
Total Capital Employed	10,483	11,155	11,810	12,961

Applications of Funds

Net Block	8,313	8,418	8,076	7,783
CWIP	330	145	145	45
Investments	480	584	784	684
Current Assets, Loans & Advances	4,536	6,812	7,353	9,567
Inventories	1,957	2,114	2,134	2,462
Receivables	1,919	3,575	3,407	3,704
Cash and Bank Balances	75	111	555	1,932
Loans and Advances	279	337	418	488
Other Current Assets	306	676	838	980
Less: Current Liabilities & Provisions	3,176	4,804	4,549	5,119
Payables	2,401	3,954	3,496	3,887
Other Current Liabilities	775	850	1,053	1,232
<i>sub total</i>				
Net Current Assets	1,360	2,008	2,804	4,448
Total Assets	10,483	11,155	11,810	12,961

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	42.7	41.4	41.9	41.7
EBIDTA Margin	10.1	10.1	11.2	11.5
EBIT Margin	5.0	5.1	6.7	7.5
Tax rate	24.1	22.6	22.6	22.6
Net Profit Margin	2.9	3.1	4.5	5.5
(B) As Percentage of Net Sales (%)				
COGS	57.3	58.6	58.1	58.3
Employee	15.0	14.9	14.1	13.7
Other	17.6	16.4	16.6	16.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.4	0.2	0.2
Interest Coverage	4.8	5.9	7.0	10.8
Inventory days	37	41	34	33
Debtors days	36	70	54	50
Average Cost of Debt	7.7	5.8	8.6	8.9
Payable days	45	77	55	52
Working Capital days	26	39	44	60
FA T/O	2.3	2.2	2.9	3.5
(D) Measures of Investment				
AEPS (Rs)	9.5	9.6	17.1	24.5
CEPS (Rs)	25.8	25.2	34.5	42.7
DPS (Rs)	2.0	2.0	3.6	5.2
Dividend Payout (%)	21.1	20.8	21.1	21.1
BVPS (Rs)	126.7	133.6	154.5	180.3
RoANW (%)	7.7	7.4	11.9	14.7
RoACE (%)	8.5	7.9	11.7	13.6
RoAIC (%)	9.6	8.8	14.0	18.1
(E) Valuation Ratios				
CMP (Rs)	277	277	277	277
P/E	29.2	28.8	16.1	11.3
Mcap (Rs Mn)	16,652	16,652	16,652	16,652
MCap/ Sales	0.9	0.9	0.7	0.6
EV	19,223	19,456	18,411	16,635
EV/Sales	1.0	1.0	0.8	0.6
EV/EBITDA	9.8	10.3	7.1	5.3
P/BV	2.2	2.1	1.8	1.5
Dividend Yield (%)	0.7	0.7	1.3	1.9
(F) Growth Rate (%)				
Revenue	(16.8)	(4.1)	24.1	17.0
EBITDA	(21.9)	(4.1)	38.0	19.6
EBIT	(42.6)	(3.6)	64.9	29.5
PBT	(42.5)	1.9	61.8	34.3
APAT	(41.0)	1.5	78.5	43.0
EPS	(41.0)	1.5	78.5	43.0

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	2,390	1,237	2,032	2,513
CFI	(1,985)	(974)	(925)	(610)
CFF	(378)	(226)	(604)	(512)
FCFF	580	377	1,332	1,813
Opening Cash	48	75	112	615
Closing Cash	75	112	615	2,006

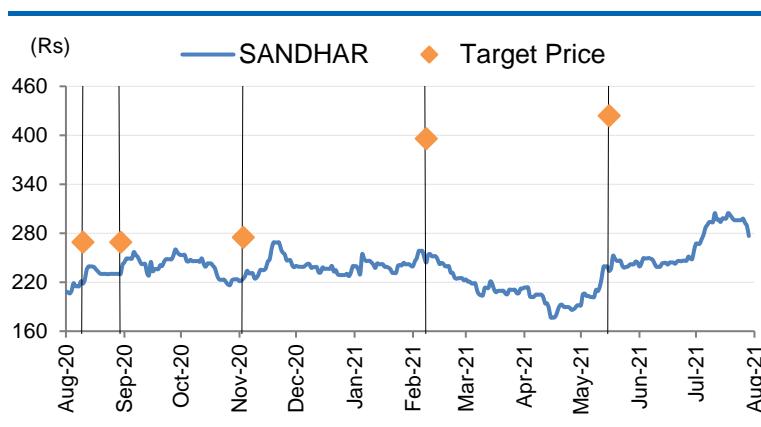
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Buy	269	218
Sep-20	Buy	269	230
Nov-20	Buy	275	224
Feb-21	Buy	396	244
May-21	Buy	424	234

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Anjana Jhaveri	VP - FII Sales	anjanaj@dolatcapital.com	+9122 4096 9758
Lekha Nahar	AVP - Equity Sales	lekhana@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirish@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: "This Report is considered independent third-party research and was prepared by Dolat Capital Market Private Limited, with headquarters in India. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a) (2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of StoneX Financial Inc. Dolat Capital Market Private Limited has sole control over the contents of this research report. StoneX Financial Inc. does not exercise any control over the contents of, or the views expressed in, any research reports prepared by Dolat Capital Market Private Limited and under Rule 15a-6(a) (3), any U.S. recipient of this research report wishing to affect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through StoneX Financial Inc. Please contact Paul Karrlsson-Willis at +1 (407) 741-5310 or email Paul.Karrlsson-Willis@stonex.com and/or Igor Chernomorskiy at +1 (212)379-5463 or email Igor.Chernomorskiy@stonex.com. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through the Dolat Capital Market Private Limited."

**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com