

Ref: STL / REG-30 / BSE / NSE / 2018-19 / 16

Dated: 14th August, 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 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

We wish to inform you that India Ratings & Research Private Limited has upgraded Company Long-Term Issuer Rating to 'IND AA-' from IND A+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/ Outlook	Rating Action
Long-term loans	-	-	June 2023	INR2,223.9	WD	Withdrawn (paid in full)
Fund-based Working capital limits	-	-	-	INR 1,550 (increased from INR 1,400)	IND AA- / Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based Working capital limits	-	-	-	INR 262.5	IND AA- / Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based Working capital limits	-	-	-	EUR9 (increased from EUR8)	IND AA- / Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Commercial paper*	-	-	Up to 360 days	INR400	IND A1+	Affirmed

*Carved out of working capital limits

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

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



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Email - enquiries@sandhar.in; website - www.sandhargroup.com; CIN - U74999DL1987PLC029553

CIN: L74999DL1987PLC029553

India Ratings Upgrades Sandhar Technologies to 'IND AA-/Stable

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By Richa Bulani

AUG 2019

India Ratings and Research (Ind-Ra) has upgraded Sandhar Technologies Limited's (STL) Long-Term Issuer Rating to 'IND AA-' from 'IND A+'. The Outlook is Stable. The instrument-wise rating actions are given below:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Long-term loans	-	-	June 2023	INR2,223.9	WD	Withdrawn (paid in full)
Fund-based working capital limits	-	-	-	INR1,550 (increased from INR1,400)	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based working capital limits	-	-	-	INR262.5	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Non-fund-based working capital limits	-	-	-	EUR9 (increased from EUR8)	IND AA-/Stable/IND A1+	Long-term rating upgraded; Short-term rating affirmed
Commercial paper*	-	-	Up to 360 days	INR400	IND A1+	Affirmed

* Carved out of working capital limits

Ind-Ra continues to take a consolidated view of STL and its two operational subsidiaries, as they have similar business profiles. STL has provided a standby letter of credit for the loans extended to its Barcelona-based subsidiary. Also, it has strong operational and management control over both subsidiaries. STL accounts for about 86% of the consolidated revenue and about 89% of consolidated profit after tax.

The upgrade factors in the significant deleveraging achieved by STL post an initial public offering (IPO) as well as an improvement in its operating performance backed by favourable industry growth.

KEY RATING DRIVERS

Deleveraged using IPO Proceeds: STL raised INR3,000 million in IPO in March 2018 and used the proceeds to repay all its term loans amounting to INR2,541 million at the standalone level in April 2018. On the standalone level, net adjusted leverage (net adjusted debt/EBITDA) improved to 0.9x in FY18 (FY17: 2.3x). On the consolidated level, the leverage ratio improved to 1.1x in FY18 (FY17: 3.1x) and debt/equity decreased to 0.8x (1.5x). The improvement in credit metrics was also to an extent driven by increased scale of operations and improved profitability, which also led to consolidated interest coverage improving to 4.8x in FY18 (FY17: 3.4x). Ind-Ra expects a further improvement in the consolidated interest coverage in FY19, driven by a reduction in interest costs post deleveraging. Net leverage is likely to remain range bound in FY19.

Improved Financial Performance: Consolidated revenue grew 21% yoy to INR19.5 billion in FY18, supported by double-digit volume growth in the two wheeler (2W) industry and a ramp-up of STL's new capacities. Domestic revenues grew 23% yoy and overseas 8% yoy. Consolidated EBITDA margin improved to 10.7% in FY18 (FY17: 9.0%), backed by the economies of a larger scale. Standalone margin (domestic operations) grew to 11.1% in FY18 (FY17: 9.2%), whereas overseas margins remained almost stable. The management expects strong revenue growth in FY19-FY20, backed by growth in the domestic 2W volumes and capacity additions done in FY18.

Diversified Product Offerings with Strong Competitive Positioning: STL's portfolio comprises various categories of products including safety and security systems such as lock assemblies, mirror assemblies, operator cabins for off-highway vehicles, as well as wheel and brake panel assemblies and sheet metal components.

STL has an established position in the domestic auto ancillary industry. It is a sole supplier of lock sets and mirror assemblies to Hero MotoCorp Limited and TVS Motors Limited for motorcycles. Moreover, it is a single-source supplier of wheel assemblies to TVS Motors. Hero MotoCorp and TVS Motors collectively accounted for 51% of 2W sales in India in FY18. The sole supplier position for various original equipment manufacturers (OEMs) makes STL the market leader in 2W locking systems and commercial vehicle rear view mirrors. It is also among the top three players in 2W rear view mirrors and operator cabins for off-highway segment and in the 2W steel wheels market.

Technological Tie-ups: STL has a technical collaboration with Honda Locks Manufacturing Company, which has helped it in establishing itself as the single-source supplier of lock set assemblies to leading OEMs. In addition, STL has entered into four new joint ventures in 2017-2018, with an aim to gain technological expertise, enabling it to expand majority in the safety and security related component offerings as well as in the passenger vehicle segment. STL has been focusing on supplying

higher content per vehicle to existing customers and continues to explore JVs with international auto component suppliers for the same. It also has an in-house research & development center for new product development as well as product upgrades.

Comfortable Liquidity: STL registered positive cash flow from operations over FY14-FY18 (FY18: INR1,462 million), driven by stable operating profits and low working capital requirements. Also, net cash conversion cycle remained short at 16 days in FY18 (FY17: 25 days). Its average peak utilisation of the fund-based working capital limits was about 90% of the drawing power (64% of sanctioned limit) for the 12 months ended July 2018. It reported a negative free cash flow of INR484 million in FY18 due to a capex of INR1,761 million. Ind-Ra expects free cash flow to improve in FY19 with an increase in cash flow from operations and a lower cash outgo towards capex and interest payments in FY19-FY20.

Declining-but-Significant Revenue Concentration: STL continues to have significant revenue concentration in the 2W segment (FY18: around 70%). The company is focusing on revenue diversification into passenger vehicles and commercial vehicles by penetrating into new OEMs and capturing opportunities from changing emission norms. STL's dependency on its two top customers has reduced over the years to 53% in FY18 (FY13: 62%), but remains substantial.

RATING SENSITIVITIES

Positive: A substantial increase in the scale of operations and profitability, better product and customer diversification while maintaining the current leverage ratio on a sustained basis could result in a rating upgrade.

Negative: A significant decline in the consolidated revenue and profitability margin and/or consolidated net adjusted leverage exceeding 1.5x on a sustained basis would result in a rating downgrade.

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 is publicly listed (from March 2018) with promoters owning 70% stake.

FINANCIAL SUMMARY (Consolidated)

Particulars	FY18	FY17
Net revenue (INR million)	19,464	16,114
EBITDA (INR million)	2,083	1,467
EBITDA margin (%)	10.7	9.1
EBITDA interest coverage (x)	4.8	3.4
Net leverage (x)	1.1	3.1
Source: STL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	28 June 2018	26 December 2017	6 December 2016
Issuer rating	Long-term	-	IND AA+/Stable	IND A+/Stable	IND A+/Stable	IND A+/Stable
Long-term loans	Long-term	INR2,223.9	WD	IND A+/Stable	IND A+/Stable	IND A+/Stable
Fund-based working capital limits	Long-/short-term	INR1,550	IND AA+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
Non-fund-based working capital limits	Long-/short-term	INR262.5	IND AA+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
Non-fund-based working capital limits	Long-/short-term	EUR9	IND AA+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
Commercial paper	Short-term	INR400	IND A1+	IND A1+	IND A1+	IND A1+

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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ABOUT INDIA RATINGS AND RESEARCH

About India Ratings and Research: India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

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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Applicable Criteria

Corporate Rating Methodology

Analyst Names

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