

CMP: INR 531

Rating: Buy

Target Price: INR 684

Stock Info

BSE 541163

NSE SANDHAR

Bloomberg SANDHAR:IN

Sector Auto Components & Equipments

Face Value (INR) 10

Equity Capital (INR Cr) 60

Mkt Cap (INR Cr) 3,196

52w H/L (INR) 697/413

Avg Yearly Vol (in 000') 162

Shareholding Pattern %

(As on March, 2024)

Promoters 70.38

DII's 16.17

FII's 0.90

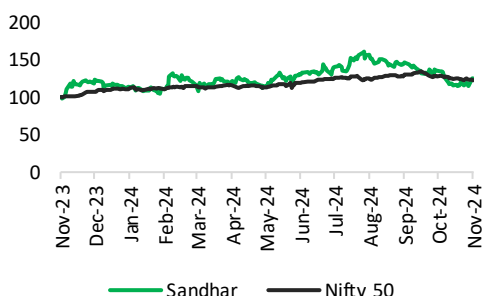
Others 12.55

Stock Performance (%)

Sandhar -4.3 -1.9 22.3

Nifty -7.7 -20.1 25.2

Sandhar Vs Nifty 50



Sandhar Technologies Ltd reported its Q2FY25 numbers, with revenue at INR 9,842 Mn (up by 11.22% YoY and 7.85% QoQ), below our estimate of INR 10,303 Mn. Gross profit stood at INR 3,776 Mn (up by 10.26% YoY and 4.66% QoQ), below our estimate of INR 4,040 Mn. Gross margins decreased by 33 bps YoY and 117 bps QoQ to 38.4%, below our estimate of 39.2%. EBITDA stood at INR 988 Mn (up by 21.79% YoY and 15.37% QoQ), in line with our estimate of INR 986 Mn. EBITDA margin increased by 87 bps YoY and 66 bps QoQ to 10.04%, above our estimate of 9.57%. PAT stood at INR 400 Mn (up by 45.43% YoY and 37.70% QoQ), above our estimate of INR 344 Mn. PAT margin expanded by 96 bps YoY and 88 bps QoQ to 4.1% in Q2FY25, compared to 3.1% in Q1FY25.

Investment Rationale

Strong growth trajectory in sheet metal: Monthly revenue for the sheet metal segment has doubled, growing from INR 20 Cr per month last year to INR 40–42 Cr per month this year. This growth is driven by three plants dedicated to major clients like TVS, which now contribute INR 30–45 Cr monthly revenue collectively. The company's capacity utilization in the sheet metal division is positioned to capitalize on increased demand, with current utilization levels between 55%-82%, providing room for growth without immediate additional capex.

Focus on EV market: Sandhar has introduced battery chargers and is testing motor controllers and DC-DC converters, aiming to capture a share of India's expanding 2W EV market. The company estimates that the components manufactured for EVs (battery chargers, DC-DC converters, and motor controllers) could contribute INR 12,000 to INR 13,000 per vehicle. With a growing client base, this segment may see rapid scaling. Unlike competitors, Sandhar's EV products are fully localized, eliminating dependence on imports, particularly from China. This domestic production capability aligns with India's focus on local manufacturing and could improve margins in the EV segment.

Growth in locking systems: A new order from Suzuki for smart locks, delayed slightly to early 2025, is expected to boost revenue in the coming quarters. The company estimates a 25–30% revenue increase in the locking systems segment for Honda alone in FY26, indicating strong growth potential in this high-value segment.

Joint ventures have turned profitable: 6 out of 7 JVs have turned positive, with the Romania plant expected to reach break-even by FY25. This improved profitability in overseas operations could support earnings stability and growth in the coming quarters. JVs collectively contributed INR 179 Cr in revenue with an EBITDA margin of 10.26%.

Outlook and Valuation

Sandhar is focused on capacity expansion, diversification into the EV market, and strategic localization to enhance profitability. The company projects revenues of ~INR 4,050 Cr for FY25, with plans to reach ~INR 4,550 Cr by FY26, alongside a gradual increase in EBITDA margins to ~11–11.5% by FY26. Key future initiatives include ramping up production in new die casting and fabrication plants in Pune, with commercial operations expected in early 2025, and scaling up EV component production to serve the growing 2W EV market. Sandhar's Romania plant is on track to break even by year-end, further contributing to margin stability. **We expect Sandhar's revenue, EBITDA, and PAT to grow at a CAGR of 13%, 17%, and 25%, respectively, over FY25-27E and arrive at a Target Price of INR 684 per share through DCF method. Accordingly, we maintain a "BUY" rating on the stock.**

Exhibit 1 : Financial Performance

Year-end	Net Sales	EBITDA	PAT	EPS	EBITDA	EV/EBITDA	P/E
March	(INR Cr)	(INR Cr)	(INR Cr)	(INR)	Margin (%)		(x)
FY23	2,909	249	74	12	8.6	14.3	43.4
FY24	3,521	341	110	18	9.7	10.4	29.0
FY25E	4,057	420	166	28	10.3	8.1	19.2
FY26E	4,554	496	205	34	11	6.6	15.6
FY27E	5,148	579	260	43	11	5.3	12.3

Source: Arihant Research, Company Filings

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Exhibit 2 : Q2FY25 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Cr)	Q2FY25	Q1FY25	Q2FY24	QoQ%	YoY%
Net Sales	984.16	912.57	884.85	7.85	11.22
Cost of material consumed	608.53	564.82	541.01	7.74	12.48
Changes in inventories	-2.00	-13.09	1.35	-115.30	-48.24
COGS	606.52	551.73	542.36	9.93	11.83
GP	377.64	360.83	342.49	4.66	10.26
Employees benefits expense	133.10	131.41	121.18	1.28	9.83
Other expenditure	145.72	143.76	140.16	1.36	3.97
EBITDA	98.83	85.66	81.15	15.37	21.79
Depreciation	42.21	40.75	36.86	3.57	14.51
EBIT	56.62	44.91	44.29	26.08	27.85
Other Income	5.79	4.69	3.17	23.44	82.43
Finance costs	13.75	14.31	12.66	-3.88	8.63
PBT	48.66	35.29	34.80	37.88	39.82
Tax	10.03	8.08	7.93	24.25	26.47
Adjusted PAT	38.62	27.21	26.87	41.93	43.76
Non-controlling interests	1.40	1.85	0.65	-24.48	314.62
Reported PAT	40.02	29.06	27.52	37.70	45.43
EPS	6.67	4.84	4.59	37.70	45.43

Margins	Q2FY25	Q1FY25	Q2FY24	YoY (bps)	QoQ (bps)
Gross margins	38.37	39.54	38.71	-33	-117
EBITDA	10.04	9.39	9.17	87	66
Adjusted PAT	4.07	3.18	3.11	96	88
Tax Rate	27.00	27.00	22.80	420	0
Cost Analysis					
RM/Net Sales	61.63	60.46	61.29	33	117
Other Exp/Net Sales	14.81	15.75	15.84	-103	-95
Staff cost/Net sales	13.52	14.40	13.70	-17	-88

Exhibit 3 : Sales Mix

Sales mix (%)	Q2FY25	Q1FY25	Q2FY24	FY24	FY23
2W	63	61	59	58	55
PV	16	17	19	20	20
OHV	14	15	14	15	16
CV	1	2	2	2	2
Others	5	6	5	5	6

Source: Arihant Research, Company Filings

Sandhar Technologies Ltd Q2FY25 Concall KTAs

The company has commenced commercial production of EV battery chargers with positive market response.

Achieved a total income growth of 11.5% YoY in Q2FY25 and 10.9% YoY in H1FY25 at the consolidated level. Consolidated EBITDA margins improved by 110 bps YoY to 10.6% Q2FY25. The company experiences revenue seasonality with 40% of business occurring in H1 and 60% in H2.

JVs & International operations: Six out of seven JVs are EBITDA positive, with combined revenue of INR 1,790 Mn and average EBITDA margin of 10.26%. Only Kwangsung Sandhar JV is marginally loss-making but expected to turn around. The Romania plant is progressing towards maturity and expected to break even by end of FY25. The first half was relatively stagnant for overseas operations, but management projects 12-13% growth over FY24.

New projects: Two new plants in Pune- one for die casting and one for cabins and fabrication, will start commercial production by January 2025. Motor controller and DC-DC converter for EVs are in testing phase and expected to launch in FY26. Total capex planned for FY25 is INR 2,500 Mn, with additional INR 1,000 Mn carry-forward commitments. FY26 capex expected to normalize to depreciation levels of INR 1,500-1,550 Mn.

Segment performance: Sheet metal business for TVS is generating monthly revenue of INR 400-450 Mn, up from INR 180-200 Mn a year ago. Cabins and fabrication business is growing at 10-12% and will close FY25 at around INR 5,500 Mn revenue. New smart locks and shutter locks for Suzuki delayed from November to January launch. Smart locks are expected to generate higher revenue compared to traditional mechanical locks due to higher value.

Debt: Gross debt stands at INR 6,200 Mn and net debt at INR 5,810 Mn as of September 2024. Management expects debt levels to not exceed INR 7,000 Mn and will continue regular repayment schedule without acceleration. Working capital utilization is around INR 300 Mn. Company is generating cash flows of approximately INR 120 Mn in H1FY25.

EV business: The company has localized production of key EV components unlike competitors importing from China. Each 2W EV kit (including DC-DC converters, chargers and motor controllers) has value of INR 12,000-13,000 per vehicle. Currently supplying to three EV customers and in discussions with several others. Company has developed a fully localized premium product for EV manufacturers. Management has not included EV revenues in current business plans due to uncertainty around adoption. Management believes legacy players (Bajaj, TVS, Hero) are likely to dominate the EV space due to established R&D centers and financial capabilities. Noted market challenges, citing that 56% of EV buyers are reluctant to purchase EVs again.

TVS projects: The Nalagarh plant is operating at INR 120 Mn monthly revenue. Attibele plant has reached INR 170-180 Mn monthly revenue, compared to INR 90-100 Mn earlier. Mysore facility is generating INR 125 Mn monthly revenue versus INR 30 Mn in Q2FY24.

Product pipeline: Multiple parts are currently under development that will come online in FY26. Sheet metal business has ongoing developments that will spill over into the next year. The company is actively working on expanding its smart lock portfolio beyond current customers.

Capacity utilization: New die casting plant will add 25-27% capacity to the entire portfolio. Sheet metal capacity utilization varies between 35-82% across plants. Overall plant capacities can support 20-25% higher output compared to current year levels. New capacity additions are being planned based on confirmed orders and customer discussions. Management indicated huge potential for capacity utilization improvement across existing facilities.

Honda business: Currently supplying locks to Honda Shine model. Expecting to start supply of smart locks shortly. Have secured approximately INR 1,000 Mn worth of casting business from Honda. Projecting 25-30% growth in lock business value from Honda in the next year. Planning to participate in all new Honda models going forward.

2W: Major two-wheeler clients include TVS Motor Company, Hero Motor Corp, Honda Motorcycles, and Suzuki Motorcycles.

Revenue mix: The 2W segment is the company's largest revenue generator, contributing approximately 63% of total revenue. Construction equipment (JCB) accounts for about 8% of revenue. Honda cars (locks, mirrors, etc.) and overseas 4W supplies contribute 15-18% of revenue.

Subsidiary performance: Total subsidiary revenue for H1 was INR 4,820 Mn. Sandhar Engineering (sheet metal business) showed strong growth with revenue of INR 1,920 Mn in H1FY25 compared to INR 870 Mn in H1FY24, achieving a 7% EBITDA margin. Overseas operations generated revenue of INR 2,340 Mn with an EBITDA margin of 10.98% in H1. Once the Romania plant stabilizes, management expects EBITDA margins to return to previous levels of 13.5%

Business updates: A Hyundai project has been delayed, with pilots now scheduled to start in March instead of the original November-December timeline. Revenue impact from this project will be realized in FY26.

Supply chain: The company maintains extremely high localization levels with 98-99% of procurement being local. Only 1-2% of components, primarily for 4W locks, are imported.

Demand outlook: FADA is bullish on demand, particularly from rural segments. Management anticipates that demand might lead to lower CP of motorcycles, but higher volumes. Inventory levels at showrooms have reduced to less than 30 days, which is a positive sign after several quarters.

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	13%
Beta (2 Yr)	1.1
CMP (INR)	531

WACC

We	87.9%
Wd	12.1%
Ke	13.7%
Kd	9.4%
WACC	13.22%

Valuation Data

Total Debt (long term borrowings) (2023)	440
Cash & Cash Equivalents (2023)	36
Number of Diluted Shares (2023)	6
Tax Rate (2024)	25%
Interest Expense Rate (2024)	13%

MV of Equity	3,196
Total Debt	440
Total Capital	3,636

FCFF & Target Price												
FCFF & Target Price		Explicit Forecast Period						Linear Decline Phase				Terminal Yr
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	188	231	279	359	455	559	663	762	845	903	930	958
Dep	168	188	207	228	250	542	365	419	464	497	512	527
Purchase of Assets	250	273	309	371	442	442	644	739	820	877	903	930
Changes in Working Capital	(64)	(59)	(62)	(122)	(156)	(168)	(199)	(229)	(253)	(271)	(279)	(287)
FCFF	171	205	239	338	420	826	583	670	743	794	818	843
% Growth in Post Tax EBIT		22.4%	21.0%	28.8%	26.6%	22.7%	18.8%	14.8%	10.9%	6.9%	3.0%	3.0%
As % of Post Tax EBIT												
Dep	89.4%	81.5%	74.1%	63.3%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%	55.0%
Purchase of Assets	132.6%	118.4%	110.6%	103.1%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%	97.0%
Changes in Working Capital	-34.0%	-25.7%	-22.3%	-33.8%	-34.2%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%	-30.0%
FCFF	171	205	239	338	420	826	583	670	743	794	818	843
Terminal Value												8,247
Total Cash Flow	171	205	239	338	420	826	583	670	743	794	818	9,090

Enterprise Value (EV)	4,523
Less: Debt	440
Add: Cash	36
Equity Value	4,118
Equity Value per share (INR)	684
% Returns	28.8%
Rating	BUY

WACC (%)

Terminal Growth (%)										
684	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	
12.23%	727	740	754	768	783	799	816	833	852	
12.48%	704	716	729	742	756	771	787	803	821	
12.73%	681	693	705	717	731	745	759	775	791	
12.98%	660	671	682	694	707	719	733	748	763	
13.23%	640	650	661	672	684	696	709	722	736	
13.48%	621	631	640	651	662	673	685	698	711	
13.73%	603	612	621	631	641	652	663	675	687	
13.98%	585	594	602	612	621	631	642	653	665	
14.23%	568	576	585	593	603	612	622	632	643	

Source: Company reports, Arihant Capital Research, Figures are in INR cr except share price and percentage data

Story in charts (INR in Cr)

Exhibit 4 : Consistent QoQ revenue growth from last 5 Quarters.

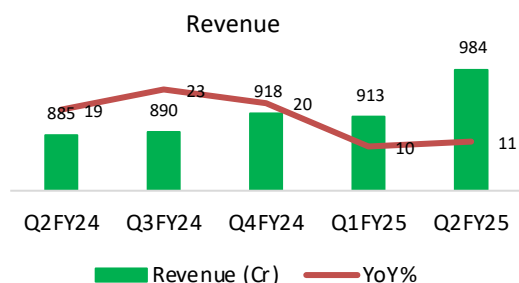


Exhibit 5: Healthy consolidated margins led by cost optimization

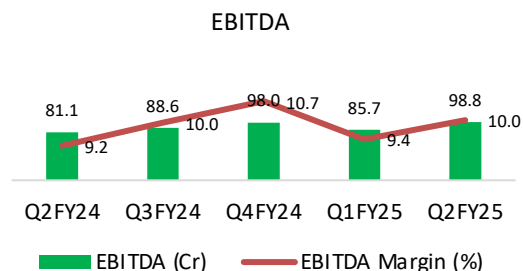


Exhibit 6: Trend of Profitability

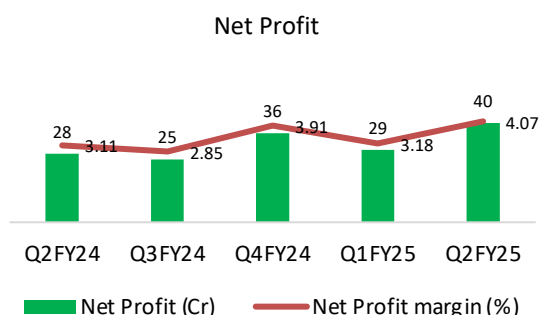


Exhibit 7: Momentum of EPS trajectory

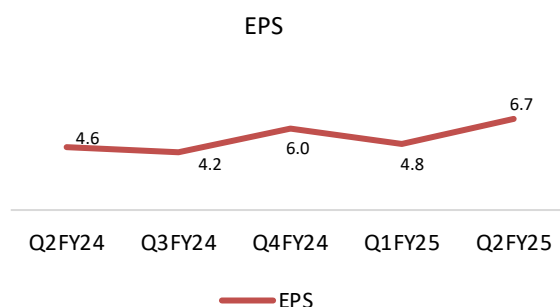


Exhibit 8: Diversified products segments with emphasis on Locking Division

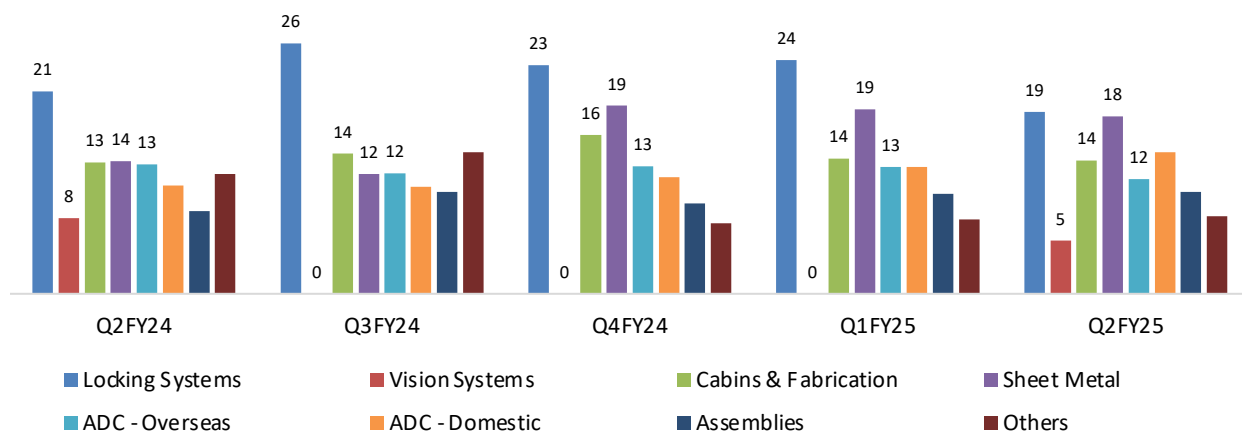
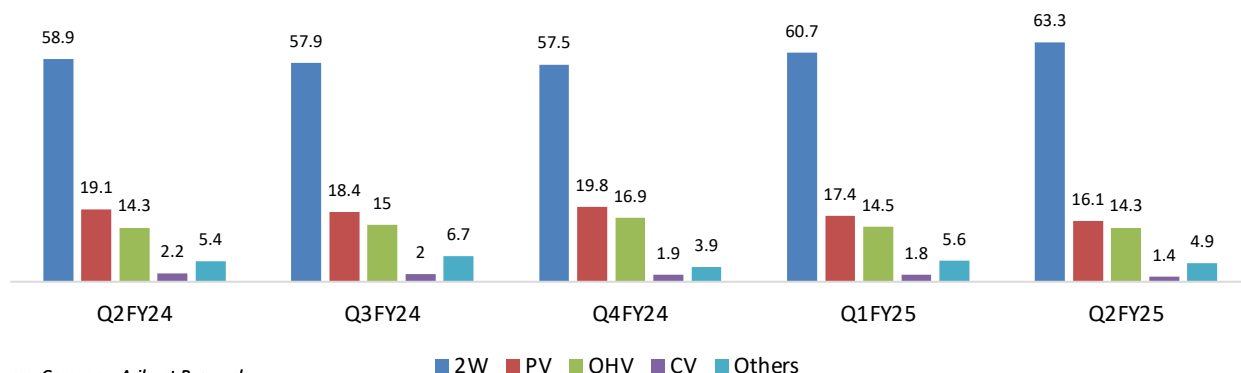


Exhibit 9: Diversifying into Passenger Vehicles along with Two-wheelers and Commercial Vehicles



Source: Company, Arianth Research

Key Financials

Income statement (INR Cr)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	2,909	3,521	4,057	4,554	5,148
Net Sales	2,909	3,521	4,057	4,554	5,148
YoY (%)	25.2	21.0	15.2	12.2	13.0
Adjusted RMC	1,827	2,149	2,470	2,766	3,103
YoY (%)	29.0	17.6	14.9	12.0	12.2
Personnel/ Employee benefit expenses	385	482	551	603	691
YoY (%)	20.8	25.2	14.5	9.4	14.5
Manufacturing & Other Expenses	448	550	616	688	778
YoY (%)	16.9	22.7	12.1	11.6	13.0
Total Expenditure					
YoY (%)	2,660	3,181	3,637	4,058	4,572
EBITDA	25.6	19.6	14.4	11.6	12.7
YoY (%)	249	341	420	496	579
EBITDA Margin (%)	20.9	36.7	23.3	18.1	16.8
Depreciation	8.6	9.7	10.3	10.9	11.3
% of Gross Block	122	154	168	188	207
EBIT	6.9	7.4	7.4	7.5	7.5
EBIT Margin (%)	128	187	251	308	372
Interest Expenses	4.4	5.3	6.2	6.8	7.2
Non-operating/ Other income	36	52	47	41	34
PBT	12	11	16	10	8
Tax-Total	104	146	221	277	346
Adj. Net Profit	27	40	55	72	86
Reported Profit	78	106	166	205	260
PAT Margin	74	110	166	205	260
Shares o/s/ paid up equity sh capital	2.5	3.1	4.1	4.5	5.0
Reported EPS	6.0	6.0	6.0	6.0	6.0
Dividend payment	12.2	18.3	27.6	34.1	43.1
Dividend payout (%)	9.9	12.0	18.1	24.1	30.1
Retained earnings	13.5	10.9	10.9	11.7	11.6

Balance sheet (INR Cr)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	60	60	60	60	60
Reserves & Surplus/ Other Equity	865	956	1,104	1,285	1,515
Net worth	925	1,017	1,165	1,345	1,575
Unsecured Loans/ Borrowings/ Lease Liabilities	406.39	432.61	322.92	272.97	215.65
Total Debt	412.47	439.87	326.92	275.97	218.65
Total Funds Employed	2,140	2,425	2,645	2,926	3,305
Application of Funds					
Gross block	1,766	2,078	2,286	2,515	2,766
Less: depreciation	575	728	897	1,085	1,292
Net Fixed Assets	1,191	1,350	1,389	1,430	1,475
Capital WIP	95	62	65	68	72
Investments/ Notes/ Fair value measurement	49	59	69	79	89
Current assets	804	954	1,121	1,349	1,670
Inventory	300	337	440	500	561
Days	60	63	65	66	66
Debtors	355	458	511	574	649
Days	45	45	46	46	46
Other Current Assets	143	124	137	150	195
Bank	1	2	3	3	3
Cash	5	33	30	121	262
Current Liabilities/Provisions	785	971	1,131	1,280	1,485
Creditors / Trade Payables	412	490	557	621	697
Days	82	82	82	82	82
Liabilities	360	465	558	642	770
Days	72	73	73	73	73
Provisions	13	15	16	17	18
Net Core Working Capital	244	304	394	453	513
Days	22	25	29	30	30
Net Current Assets	6	11	11	11	11
Deferred Tax Asset	2,140	2,425	2,645	2,926	3,305
Total Assets	1,355	1,455	1,514	1,657	1,831

Cash Flow Statement (INR Cr)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	100	146	221	277	346
Adjustments: Add					
Depreciation and amortisation	122	154	168	188	207
Interest adjustment	36	52	47	41	34
Adjustments: Less					
Interest income on fixed income securities	-1	0	0	0	0
Profit/(loss) on sale of investments, net	0	-1	-1	-1	-1
Change in assets and liabilities	257	358	443	512	594
Inventories	-41	-36	-103	-60	-61
Trade receivables	90	-102	-54	-63	-75
Trade payables	23	79	66	65	76
Other Liabilities and provisions	31	107	94	85	129
Other Assets	-24	18	-12	-14	-45
Net cash from operating activities	308	379	378	453	531
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-250	-279	-211	-232	-255
Net Sale/(Purchase) of investments	1	-9	-9	-9	-9
Net cash (used) in investing activities	-248	-288	-220	-241	-264
Interest expense	-35	-52	-47	-41	-34
Dividend paid	-14	-12	-18	-24	-30
Net cash (used) in financing activities	-37	-36	-178	-116	-122
Closing Balance	5	55	30	121	262
FCF	58	100	168	221	276
Capex as % of sales	8.6	7.9	7.0	6.0	6.0

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.4	0.4	0.3	0.2	0.1
Net Debt / Equity	0.4	0.3	0.2	0.1	-0.1
Debt / EBITDA	1.7	1.3	0.8	0.6	0.4
Current Ratio	1.0	1.0	1.0	1.1	1.1
DuPont Analysis					
Sales/Assets	2.2	2.4	2.7	2.8	2.9
Assets/Equity	2.3	2.4	2.3	2.2	2.1
RoE	8.4	10.5	14.3	15.2	16.5
Per share ratios					
Reported EPS	12.2	18.3	27.6	34.1	43.1
Dividend per share	1.7	2.0	3.0	4.0	5.0
BV per share	153.7	168.9	193.5	223.5	261.7
Cash per Share	51.3	62.9	62.9	75.3	88.3
Revenue per Share	483.3	585.0	674.1	756.6	855.2
Profitability ratios					
Net Profit Margin (PAT/Net sales)	2.7	3.0	4.1	4.5	5.0
Gross Profit / Net Sales	37.2	39.0	39.1	39.3	39.7
EBITDA / Net Sales	8.6	9.7	10.3	10.9	11.3
EBIT / Net Sales	4.4	5.3	6.2	6.8	7.2
PAT / Net Sales	2.5	3.1	4.1	4.5	5.0
ROCE (%)	9.4	12.9	16.6	18.6	20.3
Activity ratios					
Inventory Days	60.0	57.2	65.0	66.0	66.0
Debtor Days	44.6	44.6	46.0	46.0	46.0
Creditor Days	82.3	82.3	82.3	82.0	82.0
Leverage ratios					
Interest coverage	3.6	3.6	5.4	7.5	10.8
Debt / Asset	19.3	18.1	12.4	9.4	6.6
Valuation ratios					
EV / EBITDA	14.3	10.4	8.1	6.6	5.3
EV / EBIT	27.9	18.9	13.6	10.6	8.2
EV / Net Sales	1.2	1.0	0.8	0.7	0.6
PE(x)	43.4	29.0	19.2	15.6	12.3

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	6 Lad Colony, Y.N. Road, Indore - 452003, (M.P.) Fax: (91-731) 4217101

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	www.arihantcapital.com	research@arihantcapital.com

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Arihant Capital Markets Ltd.
1011, Solitaire Corporate park, Building No. 10, 1st Floor,
Andheri Ghatkopar Link Road, Chakala, Andheri (E)
Tel. 022-42254800 Fax. 022-42254880