MANAGEMENT DISCUSSION & ANALYSIS (MD&A)

Global Economy overview

Global economic growth continued to remain sluggish throughout FY2020. Trade uncertainties between the US and China, and the consequent slowdown in China adversely impacted the growth outlook. Although there was a temporary resolution in the standoff, economic growth once again weakened in the last quarter of the reporting year owing to the COVID-19 outbreak in China and subsequently worldwide. While the primary impact of the outbreak was disruption in supply chains, the secondary impact of the pandemic is now gradually becoming clear, in terms of loss of lives and livelihoods. Across the world, governments and central banks have responded to the crisis promptly, using a vast array of monetary and fiscal support tools. These fiscal and monetary safeguards are expected to remain in effect for some time, with the recovery in growth likely to be sluggish and more interrupted than initially expected. The International Monetary Fund (IMF) expects the global economy to contract by 4.9% in 2020 (World Economic Outlook, June 2020).

GDP Growth Rate (in %)

Particulars	Actual	Projections	
	2019	2020	2021
World Output	2.9	-4.9	5.4
Advanced Economies	1.7	-8.0	4.8
US	2.3	-8.0	4.5
Eurozone	1.3	-10.2	6.0
Japan	0.7	-5.8	2.4
UK	1.4	-10.2	6.3
Other Advanced Economies	1.7	-4.8	4.2
Emerging Markets and Developing Economies	3.7	-3.0	5.9
China	6.1	1.0	8.2

(Source: International Monetary Fund June 2020)

Indian Economy Overview

In India, growth softened in 2019 as economic and regulatory uncertainty, together with concerns about the health of the non-banking financial sector, weighed on demand. There was a strong hope of recovery in the last quarter of the current fiscal. However, the coronavirus pandemic made this recovery extremely difficult in the near- to medium-term. The GDP growth for FY2020 touched 4.2% vis-à-vis 6.1% in Fy2019.

Before the onset of the COVID-19 pandemic, the government and the RBI had already started addressing the cyclical challenges impacting the economy. The government focused on longer term structural policies to encourage investment and job creation, while the RBI offered support with monetary policies to cut rates and push out liquidity to the real economy. Reduction of corporate tax rates on new investments to incentivise capital formation and attract foreign investment, removal of the dividend distribution tax to encourage private sector investment,simplified personal income regime, with reduced rates—a move that's in line with the streamlining of the tax code, expansion of the PM-KISAN scheme, which directly transfers money to farmers in a targeted way, higher spending on long-term initiatives, such as rural roads, irrigation, warehousing, and transportation, are some of the fiscal measures that have been implemented to improve the productivity of the economy.

The Government of India and the Reserve Bank of India (RBI) have acted swiftly to help offset the pandemic-induced disruptions. To enhance liquidity in the economy and improve the credit scenario, the RBI reduced the policy repo rates significantly. The government too has announced a 20 lakh crore fiscal stimulus package to help support lives and livelihoods. Supportive monetary measures such as reduction of policy repo rates, lowered reserve requirements for auto loans, lending to MSMEs and allowing banks some flexibility as well as delaying classification of commercial real estate loans, have provided the much-needed relief to these sectors.

Annual GDP growth rate (%)

2016-17	2017-18	2018-19	2019-20
8.0	6.6	6.1	4.2

Source: Central Statistics Office (CSO)

Outlook

Weaker growth is likely to be experienced across developed and emerging economies of the world, given the COVID-induced disruptions and associated value chain impacts. The high probability of recession also looms high in many countries. Repeated lockdowns by economies and consequent production shutdowns are likely to have wide-ranging impact on several sectors and result in job losses. The recovery across economies is expected to be gradual, fragile and susceptible to multiple headwinds. The lack of clarity on the likely duration, intensity and spread of the coronavirus has brought in significant uncertainty in the global and domestic economic outlook. The concerns have shifted focus from the impact of imports from China on domestic supply chains, to the domestic and external demand impact, the duration of which remains uncertain, especially with social distancing and lockdowns raising the prospect of production shutdowns and job losses in some sectors.

Automotive Industry

Our business is directly related to our customers' vehicle sales and production levels across various segments. Automotive sales and production are highly cyclical and depend on general economic conditions and other factors, including consumer spending and preferences, as well as changes in interest rate levels, consumer confidence and fuel costs. According to CRISIL, supply chain disruptions in the wake of the COVID-19 outbreak, coupled with weak demand for vehicles in India and overseas, would squeeze the revenue of the automotive component sector by 16% this fiscal.

Global Lighting Business

The turbulence that hit the global auto industry in FY19 continued in FY20. Europe, North America and China continued to show a decline of 7.9%, 5.6% and 16.1% Y-o-Y, respectively. EU emissions regulations and impact of US – China trade war continued to weigh the industry performance. The coronavirus outbreak and its rapid spread was an additional burden on industry development. The major impact of COVID-19 is likely to be felt in the first quarter of FY21. According to Moody's Investor Service, global auto sales are estimated to plummet 20% Y-o-Y in calendar 2020 before recovery in mid-to-high single-digit sales growth in Fy22.

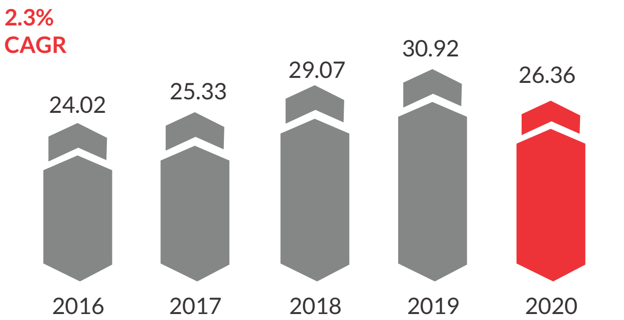
India Business

The Indian automotive industry is undergoing significant transformation, with respect to its sustainable growth and profitability. The industry is witnessing five megatrends that are expected to transform the industry in a significant way. Rapidly evolving customer needs, disruptive impact of technology, a dynamic regulatory environment, changing mobility patterns and global interconnectedness, are all impacting the way auto companies are doing business today, globally as well as in India.

Performance

The industry produced a total of 26.4 million vehicles including passenger vehicles, commercial vehicles, three-wheelers, two-wheelers and quadricycles in FY20, as against 30.9 million units in FY19, a decline of 14.7%.

Number of automobiles produced in India **(₹ in million)**



Source: Society of Indian Automobile Manufacturing (SIAM)

Two-wheeler sector

Indian two-wheeler production witnessed a 14.1% decrease in volume, directly impacting the auto components manufacturing industries. According to SIAM, domestic two-wheeler sales stood at 17.4 million units in FY20. Weak customer sentiments, confusion around BS IV to BS VI emission standards, increase in vehicle and oil prices, the COVID-19 outbreak later in the year, are some of the reasons for such fall in sales. Domestic sale for scooters during FY20 dropped 16.9% over that of FY19. While, the motorcycle volume dropped by 17.5% in the same period. The only bright spot was, the two-wheeler exports which witnessed a growth of 7.3% (3.5 million units in FY20). There is clearly a significant uncertainty regarding the growth forecast for the next few years, due to the COVID-19 pandemic impact. According to ICRA, the two-wheeler industry is expected to see another tough year, with demand further shrinking by nearly 13% in FY21. This will highly depend on the dissipation of the pandemic in the second half of calendar 2020.

Three-wheeler sector

India is one of the largest exporters of three-wheelers, and major players are continuously expanding their distribution reach in other countries to boost the growth of exports. Export destinations include emerging markets like Africa, South East Asia and Latin America. The three-wheeler segment has reported a 10.6% decline in the overall production volume in FY20, producing 1.1 million units vis-à-vis 1.3 million units in FY19. Domestic sale volume saw YoY decline of 9.2% and export sale saw, a decline of 11.5% Y-o-Y in FY20. Weak consumer sentiment and a fall in discretionary spending, are expected to keep the sales in the passenger vehicle segment subdued. Adding to the weak demand situation are the ambiguity surrounding the availability of financing options to vehicle dealers and consumers, disruption of supply chains, and overall weakness in the global economy. Muted spending by auto companies on new launches, coupled with lack of discounts, is estimated, as companies will look to maintain cash reserves.

Outlook

Considering the COVID-19 outbreak and resultant lockdown, which intensified the issues faced by the economy on account of slowdown, the outlook in the near- to mid-term period remains unclear.

In the first half of FY21, consumer sentiments and demand are expected to remain muted. Demand recovery can only be expected around the festive season in the third quarter of the year. With growing consumer preference for cheaper, personal transport, two-wheelers – motorcycles in particular, with their higher rural share – will likely be the first category to see a rebound. Prospects for China, having reopened earlier than most other economies hit by the pandemic, are looking more positive in the initial months post opening up. In the medium-term, the global automotive industry appears to be poised for a rebound as manufacturers replenish dealer inventories and meet pent-up demand, especially with many consumers expected to avoid public transport and ride-sharing.

Demand Drivers

Two wheeler

The key demand drivers for the two wheeler market in India can be illustrated as under:

COVID-19 Pandemic Less usage of public transportation, growth in two wheeler demand Rapidly evolving customer expectations Changing customer profile. High level of product awareness, Digitally savvy, Surge in corporate customers. Disruptive impact of technology Rapid adoption of technology in vehicles, industry supply chain and business models, Disruption through innovative products and services. Dynamic regulatory environment Regular but uncertain regulatory intervention (GST, shift from BS IV to BS VI, ABS for two-wheelers, higher axle loads in CVs etc.), Increasing investments in regulatory compliance by industry players. Changing face of mobility infrastructure Efforts to enable electric vehicle infrastructure, Investment in roads and highways, Shared mobility as some alternative, Smart cities Globally interconnected industry Indian companies going global, Next wave of investments from global companies, Shift in economic power to countries such as India.

Company Overview

Sandhar Technologies Limited (Sandhar) is one of the largest companies catering to the commercial vehicle locking systems market and the two wheeler rear view market in India. It is an auto component supplier mainly catering to automotive OEMs and primarily focused on safety and security systems of vehicles. The organization engages in designing and manufacturing a range of automotive components, parts and systems, driven by technology, process, people and governance. Sandhar has a rising international footprint with 21 product categories and 34 manufacturing facilities in India, 2 in Spain, 1 in Mexico and 3 manufacturing facilities are in the process of getting commissioned in India.

SWOT Analysis

Strengths

- Most of the facilities are in vicinity to the customer base.
- Long standing and growing relationships with major Original Equipment Manufacturers (OEMs).
- Manufacturing locations in close proximity to automobile hubs.
- Inorganic growth through strategic acquisitions.
- Ensures efficiency and cost optimization.
- Leverages innovation and design capabilities.

Weakness

- Higher customer concentration can impact the financial performance.
- It has substantial amount of indebtedness.
- High dependency on its promoters.
- Major revenue reliability on the two-wheeler market.

Opportunities

- Expansion of product portfolio mix by in house manufacturing
- Investments in new products and business with high growth potential.
- Expansion of customers in the global market.
- Replication of product knowledge with other new customers .

Threats

- Decrease in two wheelers, passenger vehicles and consumer vehicle industries could impact the overall sales volume.
- Increasing competition from other automotive competitors.
- Changes in regulatory and industry requirement can obsolete the product.

Financial Overview

Particulars	FY 2020	FY 2019	YoY growth
Revenue from operation (Rs. in crore)	1,943	2,336	-16.8%
EBITDA (Rs. in crore)	206	258	-20.16%
Total Comprehensive Income (Rs. in crore)	67	96	-30.21%
EBITDA Margin (in %)	10.6	11	-40 bps
Net Profit Margin (in %)	3.5	4.1	-60 bps
Debt Equity Ratio (in times)	0.25	0.38	-0.12 Times
Current Ratio (in times)	0.88	0.89	-0.1 Times

Outlook & Strategy

Sandhar continues to outperform the industry average. To continue its robust growth trajectory, the company plans to diversify its product offering to newer segments in order to increase its market share. The company plans to increase its production capacity to cater to the growing domestic and international market demand. Sandhar has plans to leverage current trends in the automotive sectors such as increasing focus on safety, fuel efficiency, comfort, customization, as well as auto electronics. It intends to focus on adopting strategies to establish a standardised platform across it business units for its processes, hardware and software infrastructures and workforce. Going ahead, Sandhar would focus more on offering high value added products.

Risk Mitigation

Sandhar's risk management policies are formulated in such a way that the company can respond swiftly and implement the necessary mitigation strategies. A prudent risk management framework has been structured such that a cautious approach is undertaken to identify and analyse internal and external risks and minimize its impact on the manufacturing operations.

Key Risks	Nature of Risk	Risk Mitigation Strategies
Customer Retention Risk	Inability to address customer needs and growing competition may lead loss in revenue.	• Sandhar has a well-integrated product portfolio mix to cater the needs of changing tastes and preferences of the customers. • The R&D and marketing team merge marketing trends and adapt innovative architectural theorems to design new auto component parts.
Currency Risk	With significant exports and foreign currency volatilty, Sandhar's profitability remains under threat.	• Sandhar has followed a consistent policy of hedging to avoid any major fluctuations.
Interest Rate Risk	The Company is always looking at expanding its presence. It uses borrowings to fund its expansion plans and hence, has an incremental exposure to interest rate risk.	• Sandhar's financial planning team ensures average cost of borrowings remains at adequate level. • A considerate mix of loan portfolio and internal cash accruals is carried out to fund its expansion plans, while working capital loan is maintained at a sufficient threshold.
Employee Retention Risk	Attrition of key employees could impact business operations and growth of the company.	• Sandhar's employee-centric policies and initiatives facilitate in retaining key intellectuals. • Its training calendar, performance management system, and people involvement and motivation programs help encourage and retain talent.

Key Risks	Nature of Risk	Risk Mitigation Strategies
Components costs	Increase in prices of raw materials used in product may lead to higher production cost and have adverse effect on the profitability of the company.	• Sandhar has a system of bulk purchase of the required material on quarterly or six month basis to offset the volatility in price. • The company also undertake re-designing of the product to reduce the material content and material standardization to globally available raw materials • Sandhar take supplies from limited suppliers, hence giving it the benefit of bulk purchase at a competitive price.
Pricing and Competition risk	Automobile component industry consists of many small and big players. Hence the company face intense competition from domestic as well as international players. The company may face margin pressures with rising input cost and been able to pass the same onto the consumers.	• Sandhar has an established brand reputation in the market, giving it an edge over the competitors. • The focus has always been on cost-reduction and creating value added products for the customer. These strategies help the company to gain customer loyalty and trust. • Sandhar continuously monitors its cost to sales ratio in order to maintain the desired level of profitability.
Dependence on Suppliers	With the given nature of Sandhar's business, it dependence upon its suppliers for bought out components being supplied by several Tier-2 suppliers, at each stage of production. If the suppliers fail to deliver the products on time may have adverse effect on the business.	• The company maintains optimum number of suppliers in every segment and has develop alternate suppliers around in multiple geographical locations resulting in uninterrupted and high quality supplies of the required material.

Human Resources

Human resources are the most critical element of Sandhar. The company strive towards attracting and retaining the best talent required for the business to grow. The company possess a talented pool of human procurement team which chooses the best employee with the able skill set which is apt for the working process of Sandhar. The company focuses on leveraging the skill set and competencies by regularly training their employees in technical and soft skills to help enhance their capabilities and performances. Sandhar appreciates and recognizes outstanding employee performances and achievements through performance oriented annual rewards and incentive schemes. As on 31st March 2020, 347 new employees were recruited and they are in the process being trained by the in house talent acquisition team.

The human capital of the company ensures that the employees should work in such a way which will leverage them both personally as well as professionally. Its focus is to ensure transparent, safe, healthy, progressive and engaging work environment which is aimed at creating leaders of the future. Employees have a sense of belongingness and feel empowered in driving business profitability.

Information Technology

Sandhar has invested in the Oracle enterprise resource planning systems ("ERP") and have implemented ERP systems since 2009 which encompasses the management of all production, materials, maintenance and human resource functions. It has always made conscious efforts to consistently upgrade its systems to ensure efficiency and reduce redundancies. All our security systems and business continuity management systems are ISO certified. The Company has also established use of information technology systems in design, development and prototyping such as Autodesk, Dassault, Ironcad, Delcam, Mastercam and Unigraphics. The Company has already reduced its dependency on Hardware Infrastructure and upgraded to cloud-based ERP solutions to optimise its IT related costs.

Internal control and adequacy

The Company has put in place adequate internal financial control systems commensurate with its size, nature and complexity of operations. These controls are adequate for ensuring the orderly and efficient conduct of the business and are working effectively. These controls have been designed to provide reasonable assurance with regard to recording and providing reliable financial and operational information, adherence to the Company's policies, safeguarding of assets from unauthorized use and prevention and detection of frauds and errors.

The internal audit function is carried out by an independent firm of Chartered Accountants, viz. M/s. GSA & Associates, New Delhi which has the requisite experience and knowledge of the industry segment and the control systems necessary for the nature, size and scale of operations of the Company and it reviews the adequacy of internal control systems and covers significant areas of the Company's operations. Risk based audits are performed, based on an annual internal audit plan, which is developed in consultation with the Audit Committee. Internal Audit reports are regularly reviewed by the Top Management. The Internal Audit process also monitors the progress in implementation of suggestions for improvements.

The Audit Committee reviews the adequacy and effectiveness of internal control systems and suggests ways of further strengthening them. During the period, the Audit Committee met regularly to review the reports submitted by the Internal Auditors. All significant audit observations and improvement actions thereon were reported to the Audit Committee.

Besides the internal audit, the Company has an internal team which undertakes Commercial audit, the objective of which, inter-alia, is to identify areas of operational improvement and efficiency, unlocking of capital from idle or under-utilised assets and identify aspects of cost over-runs and undesirable expenses incurred due to non-compliance or non-adherence to standard operating procedures.

Health, Environment & Safety

Sandhar has always taken initiatives to reduce the risk of accidents at its facilities by carrying out trainings, safety audits, and by installing safety devices such as sensors, exhaust, fire extinguishers. The Company observes and celebrates safety day in its facilities to improve awareness among employees on safety at workplaces. In addition to creating initiatives to improve employee safety at workplaces, it has also implement initiatives to reduce the environmental impact of its operations. Such initiatives include:

- Maintaining treatment plants to avoid water pollution and soil contamination;
- Recycling and reusing water wherever possible;
- Ensuring zero discharge wherever possible;
- Implementing 'Swachh Bharat Abhiyan' in all facilities;
- Managing e-wastes and hazardous wastes;
- Installing solar panels to conserve energy;
- Obtaining OHSAS 18001 certification for its units;
- Obtaining LEED Certification (Energy Saving) for its Corporate Office; and
- Planting new saplings on a yearly basis in each one of its units.

Environmental requirements imposed by the Government will continue to have an effect on operations of the Company, though not significant. The Company believes that it has complied with,

and will continue to comply with all applicable environmental laws, rules and regulations. The Company has obtained, or is in the process of renewing, all material environmental consents and licenses from the relevant governmental agencies that are necessary for it to carry on with its business. The activities of the Company are subject to the environmental laws and regulations of India which govern, air emissions, waste water discharges, the handling, storage and disposal of hazardous substances and wastes, the remediation of contaminated sites, natural resource damages, and employee health and employee safety. The Company's overseas subsidiaries in Mexico, Poland and Spain are also subject to regulations relating to environmental, health and safety measures.