

# ENDURANCE TECHNOLOGIES LTD | Auto & Auto Components

Capacity expansion and a strong order book to drive future business

# LKP

## • Strong Q4 led by consistent order delivery and robust auto sales

Endurance's Q4 numbers were in line with street's expectations as revenues zoomed up by 33.6% yoy and 4.5% qoq in the consol business. On the domestic front, the topline jumped by 42.2% yoy and 4.6% qoq as it was led by seasonally strong Q4 and a lower base. The company grew much higher than the underlying industries as the company continuously won business from its existing as well as new clients and improvement in content per vehicle. Also the delivery of ₹12.2 bn order book won before two years has gained momentum now. Domestic margins were at 14.8%, down qoq from 17% due to sudden hike in input costs. The European business grew by 13% yoy, with margins coming up at 17.9%, flattish qoq. Consol margins ranged at 15.6% while bottom-line grew by 75.1% yoy. Recently, the company commenced operations at its new Vallam plant near Chennai to augment the die casting capacity and to integrate brake components. It will help in serving better the growing requirements of the OEM customers in the region. Also the company is coming up with few more plants according to demand for its various products and from different clients.

## • Higher competition in the 200+ cc bikes gives a great opportunity to the company

The share of premium bikes in the overall 2W portfolio has been rising which is evident from not only rising sales of the existing models but aggressive launch planned in future. Leading 2W bike manufacturers are planning to challenge Royal Enfield in its turf; Bajaj Auto has announced capex of ₹65 bn for manufacturing high end KTM, Husqvarna and Triumph motorcycles along with electric vehicles. HeroMoto is planning to introduce range of 200+ cc; while Yamaha motorcycles and HMSI are also planning aggressive launches of high end models in near future. Premium bikes are expected to grow in lower teens over next 3-5 years on the back of increasing urbanization, improved purchasing power and rising aspirational needs. Endurance Tech would be the big beneficiary of the rise in share of premium bikes as it is one of the few auto ancillaries with tried and tested products which go into manufacturing of premium bikes along with new products backed by regulation viz., ABS, CBS, etc. which so far are majorly met through imports. The two acquisitions of Adler and Grimmecca done last year are a perfect fit in these aspirations of Endurance as they are providing technology for 200+ cc motorcycles business expansion.

Key Financials	FY 20	FY 21	FY 22E	FY 23E
Total sales(₹ bn)	69.2	65.5	80.2	95.9
EBITDA margins(%)	16.3%	15.9%	16.1%	16.7%
PAT margins(%)	8.2%	7.9%	8.6%	9.5%
EPS	40.2	37.0	48.8	64.5
P/E	34.8	37.1	28.7	21.7
PEG	2.4	-6.0	1.0	0.7
P/BV	6.5	5.5	4.8	4.1
EV/EBITDA	17.2	18.8	14.9	11.8
ROE%	18.8%	14.6%	16.8%	18.9%
ROCE%	20.4%	15.9%	19.2%	21.6%

Rating	Buy
Current Market Price (₹)	1,396
12 M Price Target (₹)	1,612
Potential upside (%)	15

### Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	196
Market Cap Free Float (₹ bn) :	47
52-Week High / Low (₹) :	601 / 1,520
2-Year High / Low (₹) :	565 / 1,520
1 Year Avg. Dly Traded Volume (in lakh)	1.45
BSE Code / NSE Symbol	ENDURANCE / 540153
Bloomberg :	ENDU IN

### Shareholding Pattern (%)

	Mar-21	Dec-20	Sep-20	Jun-20
Promoter	75.00	75.00	75.00	75.00
FPIs	9.85	10.61	11.59	11.80
MFs	9.47	9.34	9.13	8.42
Insurance	3.84	3.31	2.77	3.18
Others	1.84	1.74	1.51	1.60

Source: BSE

### Price Performance (%)

(%)	1M	3M	6M	1YR
Endurance	8%	0.03%	29%	122%
Nifty 50	4%	-0.5%	16%	64%

\* To date / current date : May 20, 2021

### Endurance vs Nifty 50



- **Capacity expansions readies Endurance to take care of the new businesses**

Increasing penetration along with broadening client base would also help Endurance to grow in medium to long term. Company has already entered into TVS Motors with annual revenue potential of ₹2 bn(approx.) majority of which is coming from braking products and rest from suspensions while company has secured orders for supplying all 4 products to HMSI (3rd OEM after Bajaj Auto and RE) from next year; as the company is expected to have higher product penetration in these OEMs over next couple of years. In Brakes, the company has current market share of 29-30% and is expecting this to increase upto 55%, going forward on the back of new orders from HMSI and HMCL. While in Discs, the company has a market share of 45%, which it intends to take up to 70% with new business earned recently. Endurance has planned capacity expansion from the current 285K to 525K per month in Disc Brakes and 375K to 675K of Discs at their upcoming plant at Waluj, Aurangabad. This would start by H2 FY22. 45K Disc Brakes expansion has already started at their Pantnagar plant in FY21. Endurance has also made in-roads with Hero Moto and is planning to ramp up the revenue share with Hero Moto's AP plant. Supplies of CBS, suspension products and alloy wheels would enable Endurance ramp up revenues from Yamaha over next two years (from ₹2 bn (approx. in FY20)). With expansion in capacity of Chennai plant, the company would be able to cater to the increased demand of disc brakes and clutches for RE; while the company is also in a good position to gain orders for supply of ABS for 200+cc bikes considering duopolistic market in it, Bosch being the market leader. Endurance foresees an opportunity of 3mn units for ABS by October 21. There also lies a significant opportunity in Alloy wheels business as by Aug-Sep 2021 import of Alloy Wheels from China will be completely banned from China. Endurance is ramping up its Alloy wheels capacity from 240K to 320K per month at its Pune plant due to orders from Bajaj and Yamaha.

Endurance is planning to ramp up share of PVs in the domestic revenues (70% of overall revenues) driven by domestic demand and exports. Currently PVs contribute just 6% of domestic business. Company has already bagged orders to supply Aluminium castings to Hyundai & Kia which is expected to reach full revenue potential of approx. ₹3bn by FY23. Therefore, Endurance is coming up with a new capacity of 720K of Aluminium cylinder head pressure die casting at Uttarakhand in Q2 FY22. Company is also in talks with M&M and Maruti for supplying Aluminium casting products. Given the high entry barriers in Aluminium castings, Endurance has huge scope for winning business in PV castings segment. Company is also exploring new opportunities for exporting the Aluminium castings; Endurance is already supplying few transmission products to GETRAG. Company is also exploring opportunities of opening accounts with new overseas OEMs and acquisitions.

- **European business on growth path**

Though the PV industry in Europe is expected to stagnate over next couple of years and ongoing second spike of pandemic, Endurance's European business (27.3% of overall revenues) is expected to gain business on account of the light-weighting of vehicles (increased usage of Aluminium in PVs) with shift towards EVs which would drive the die-casting business, market share gains (small Aluminium foundaries & casting companies in Europe are financially weak) and acquisitions, if any. Rise in capacity utilization, cost rationalization along with rise in share of value added products (full machined castings, brakes & clutches) would enable margin improvement in European business. European business has won orders worth Euro 110 mn (approx.) mainly for hybrid cars and EVs from VW, BMW, Porsche, Audi, Fiat Chrysler and Maserati over last two years which would be ramped in FY22 and FY23.

## Quarterly Financial Snapshot

(₹ mn)	Q4 FY21	Q3 FY21	% qoq	Q4FY20	% yoy
Net Sales	21,329	20,408	4.5%	15,967	33.6%
Raw Material Costs	12,222	11,031	10.8%	8,664	41.1%
Employee Costs	1,934	1,825	6.0%	1,627	18.9%
Other Expenses	3,851	4,030	-4.4%	3,297	16.8%
EBITDA	3,322	3,521	-5.7%	2,379	39.6%
EBITDA Margins (%)	15.6%	17.3%	(170 bps)	14.9%	70 bps
Other Income	69	58	18.1%	174	-60.3%
Depreciation	1,118	1,044	7.1%	1,229	-9.0%
Interest Expenses	19	42	-56.1%	26	-27.0%
PBT	2,254	2,493	-9.6%	1,299	73.6%
Tax	381	480	-20.6%	229	66.2%
Adj. PAT	1,873	2,013	-7.0%	1,069	75.1%
Adj EPS	13.32	14.31	-7.0%	7.60	75.1%
Exceptional Items	-	112	N/A	-	N/A
Reported PAT	1,873	1,901	-1.5%	1,069	75.1%

Source: Company, LKP Research

## Outlook and Valuation

The company reported very strong numbers in Q4 and is expected to follow suit in the ensuing quarters. In domestic markets the story will be driven by increasing business with existing clients and new business wins particularly at the higher end of the spectrum. Increasing capacities for client specific supplies at low capex, and entry into new products shall boost the numbers. Increasing orders from existing clients, new businesses in both India and Europe, higher content per vehicle is increasing the market share consistently and will continue to rise hereon.

Profitability lift up, improvement in return ratios will be the result of higher product mix and increased electrification & hybridization in Europe. Endurance derives about 66% of its consol topline from 2Ws and considering the rising importance of social distancing and personal mobility in domestic markets, we believe 2W industry to be preferred medium of transport and therefore Endurance shall be an attractive investment case. We maintain our BUY rating on the stock with slightly increased target price of ₹1,612 valued at 25x FY23E earnings.

## Income Statement

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
<b>Total Revenues</b>	<b>69,177</b>	<b>65,470</b>	<b>80,248</b>	<b>95,940</b>
Raw Material Cost	37,352	35,705	44,102	52,144
Employee Cost	6,773	6,760	7,714	9,059
Other Exp	13,744	12,601	15,481	18,678
<b>EBITDA</b>	<b>11,308</b>	<b>10,404</b>	<b>12,951</b>	<b>16,059</b>
<i>EBITDA Margin(%)</i>	<i>16.3%</i>	<i>15.9%</i>	<i>16.1%</i>	<i>16.7%</i>
Other Income	476	307	400	460
Depreciation	4,142	3,991	4,134	4,484
<b>EBIT</b>	<b>7,166</b>	<b>6,413</b>	<b>8,817</b>	<b>11,575</b>
<i>EBIT Margin(%)</i>	<i>10.4%</i>	<i>9.8%</i>	<i>11.0%</i>	<i>12.1%</i>
Interest	175	138	115	140
<b>PBT</b>	<b>7,467</b>	<b>6,582</b>	<b>9,102</b>	<b>11,895</b>
<i>PBT Margin(%)</i>	<i>10.8%</i>	<i>10.1%</i>	<i>11.3%</i>	<i>12.4%</i>
Tax	1,810	1,272	2,233	2,824
<b>PAT</b>	<b>5,657</b>	<b>5,310</b>	<b>6,868</b>	<b>9,071</b>
<i>PAT Margins (%)</i>	<i>8.2%</i>	<i>8.1%</i>	<i>8.6%</i>	<i>9.5%</i>
Exceptional items	0	112	0	0
<b>Adj PAT</b>	<b>5,657</b>	<b>5,198</b>	<b>6,868</b>	<b>9,071</b>
<i>Adj PAT Margins (%)</i>	<i>8.2%</i>	<i>7.9%</i>	<i>8.6%</i>	<i>9.5%</i>

## Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
<b>Per Share Data (₹)</b>				
Adj. EPS	40.2	37.0	48.8	64.5
CEPS	69.7	65.3	78.2	96.4
BVPS	213.7	253.2	289.9	341.5
DPS	13.3	0.0	12.2	12.9
<b>Growth Ratios( %)</b>				
Total revenues	-7.9%	-5.4%	22.6%	19.6%
EBITDA	0.2%	-8.0%	24.5%	24.0%
PAT	14.3%	-6.1%	29.4%	32.1%
EPS Growth	14.3%	-6.1%	29.4%	32.1%
<b>Valuation Ratios (X)</b>				
PE	34.8	37.1	28.7	21.7
P/CEPS	20.1	21.4	17.9	14.5
P/BV	6.5	5.5	4.8	4.1
EV/Sales	2.8	3.0	2.4	2.0
EV/EBITDA	17.2	18.8	14.9	11.8
<b>Operating Ratios (Days)</b>				
Inventory days	53.8	62.5	54.0	52.0
Receivable Days	35.5	58.0	45.0	41.0
Payables day	56.3	71.3	65.0	60.0
Net Debt/Equity (x)	0.13	0.11	0.11	0.10
<b>Profitability Ratios (%)</b>				
ROCE	20.4%	15.9%	19.2%	21.6%
ROE	18.8%	14.6%	16.8%	18.9%
Dividend payout	33.0%	0.0%	25.0%	20.0%

Source: Company, LKP Research

## Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
<b>Equity and Liabilities</b>				
Equity Share Capital	1,407	1,407	1,407	1,407
Reserves & Surplus	28,654	34,214	39,365	46,622
<b>Total Networth</b>	<b>30,061</b>	<b>35,621</b>	<b>40,772</b>	<b>48,028</b>
Total debt	4,020	3,792	4,292	4,792
Net Deferred Tax	79	5	5	5
Long term provisions	895	823	823	823
<b>Current Liab &amp; Prov</b>				
Trade payables	10,661	12,782	14,291	15,771
Short term provisions	335	299	299	299
Other current liabilities	4,648	4,151	4,151	4,151
<b>Total current liab and privs</b>	<b>15,644</b>	<b>17,232</b>	<b>18,741</b>	<b>20,221</b>
<b>Total Equity &amp; Liabilities</b>	<b>50,700</b>	<b>57,472</b>	<b>64,632</b>	<b>73,869</b>
<b>Assets</b>				
Net block	24,104	23,509	27,375	29,891
Capital WIP	1,065	930	1,930	2,930
Other non current assets	1,900	1,446	1,446	1,446
<b>Total fixed assets</b>	<b>29,222</b>	<b>28,433</b>	<b>33,299</b>	<b>36,815</b>
Cash and Bank	6,209	5,133	7,537	11,470
Inventories	5,501	6,118	6,525	7,429
<b>Trade receivables</b>	<b>6,727</b>	<b>10,410</b>	<b>9,894</b>	<b>10,777</b>
<b>Loan, Advances &amp; others</b>	<b>1,393</b>	<b>2,947</b>	<b>2,947</b>	<b>2,947</b>
Other current assets	1,648	4,431	4,431	4,431
<b>Total current Assets</b>	<b>21,478</b>	<b>29,039</b>	<b>31,333</b>	<b>37,054</b>
<b>Total Assets</b>	<b>50,700</b>	<b>57,472</b>	<b>64,632</b>	<b>73,869</b>

## Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	7,466	6,468	9,102	11,895
Depreciation	4,142	3,991	4,134	4,484
Interest	169	132	115	140
Chng in working capital	539	-2,695	1,618	-307
Tax paid	-2,256	-1,738	-2,233	-2,824
Other operating activities	53	56	0	0
<b>Cash flow from operations (a)</b>	<b>10,113</b>	<b>6,215</b>	<b>12,736</b>	<b>13,388</b>
Capital expenditure	-5,825	-3,750	-9,000	-8,000
Chng in investments	0	0	0	0
Other investing activities	8	27	0	0
<b>Cash flow from investing (b)</b>	<b>-6,708</b>	<b>-5,906</b>	<b>-9,000</b>	<b>-8,000</b>
<b>Free cash flow (a+b)</b>	<b>3,406</b>	<b>309</b>	<b>3,736</b>	<b>5,388</b>
Inc/dec in borrowings	-543	-1,296	500	500
Dividend paid (incl. tax)	-1,865	0	-1,717	-1,814
Interest paid	-168	-134	-115	-140
<b>Cash flow from financing (c)</b>	<b>830</b>	<b>-1,079</b>	<b>2,404</b>	<b>3,933</b>
<b>Net chng in cash (a+b+c)</b>	<b>5,382</b>	<b>6,212</b>	<b>5,133</b>	<b>7,537</b>
<b>Closing cash &amp; cash equivalents</b>	<b>6,212</b>	<b>5,133</b>	<b>7,537</b>	<b>11,470</b>

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