

Buy CMP: ₹1,172 | 12M Price Target ₹1,399**Endurance Technologies** | Industry: Auto and Auto Components**LKP**
Since 1948

Justifies premium valuations

Endurance Technologies (Endurance) is one of the biggest suppliers of components to 2-wheelers and 3-wheelers in India, having core-competence in aluminium casting, transmission and suspension products. The company is likely to benefit from new customer wins, stricter safety norms in India and increasing demand for aluminium content in passenger vehicles across India and Europe. The company is growing at a rate faster than its peers as well as its underlying industry, hence we believe that the premium valuations of 24x on FY21E earnings, at which the stock is trading currently is well deserved. We initiate coverage on the stock with a BUY rating and a target of ₹1,399.

Market share wins across segments expected with new opportunities in the offing

Endurance is a strong player in most of the segments in which it operates. With about 30% market share in shock absorbers and front forks business, opportunity in the form of transition of HMSI from shock absorbers to front forks would lead to further gain in market share as it is a huge opportunity coming up. In the braking component industry, we see the new stricter safety norms implementation from April 2019 to offer a robust demand for the company's newer and existing products. In the aluminium casting industry, increase in aluminium content in domestic 4-wheelers and demand for the same in Europe driven by newer emission norms and Electric vehicles shall lead to rise in Endurance's market share. However, the pace at which this business will grow will be slower than that of the previous two businesses. The company has an overall strong order book of ₹9.2 bn (mainly from Kia Motors, HMSI, Hero Motocorp, Yamaha India, Royal Enfield, Fiat India, Tata Motors and TVS) to be executed by FY 21E.

Multiple margin drivers to push up the profitability hereon

Endurance has been scaling up its proprietary business (Suspension, Transmission and Braking business) led by stricter safety regulations in 2-wheelers in India, which should result in share of proprietary business to increase to 60% of standalone revenues in FY2021 from 50% in FY2018 and 51% in Q3 FY19. The non-proprietary business which includes aluminum casting business has a lower margin and as its proportion is expected to go down, margins are expected to move up from here. Transition of shock absorbers to front forks by HMSI scooters has a huge scope for margin escalation as the content per vehicle of front forks is twice that of shock absorbers. Higher demand for disc brakes along with ABS will also increase the proportion of high value products, which will drive margins.

18% net profits CAGR for FY 18-21E a testimony to the success

We forecast Endurance's consolidated revenues/net profits to clock a CAGR of 13%/18% in the period between FY18-21E, driven by strong growth in India business (16%/27% growth in revenues/net profits in the same period). We expect profitability to expand from here on the back of better capacity utilizations, operating leverage and margin expansion on robust product mix (higher share of proprietary business).

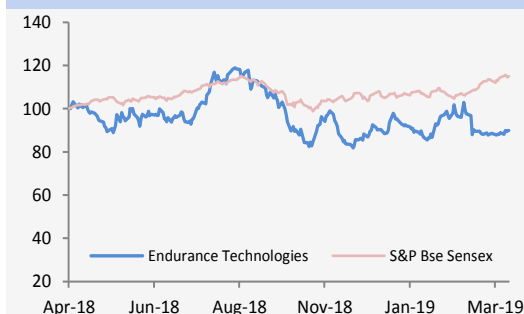
YE Mar	FY 17	FY 18	FY 19E	FY 20E	FY 21E
Total sales (₹ bn)	55.9	65.4	74.5	85.7	95.0
EBITDA margins(%)	13.6%	14.2%	14.8%	14.9%	15.1%
PAT margins(%)	5.9%	6.4%	6.8%	6.9%	7.1%
EPS (₹)	23.5	29.7	36.3	42.0	48.2
P/E (x)	49.0	41.4	31.7	27.4	23.9
PEG	4.9	2.3	1.0	1.7	1.6
P/BV (x)	9.4	7.5	6.2	5.2	4.4
EV/EBITDA (x)	21.5	17.3	14.5	12.3	10.7
ROE %	19.1%	19.2%	19.6%	19.0%	18.4%
ROCE %	22.4%	23.6%	24.7%	24.3%	23.7%

Stock Data	
Rating	Buy
Current Market Price(₹)	1,172
12 M Price Target (₹)	1,399
Potential upside (%)	19
FV (₹)	10
Market Cap Full (₹ bn)	165
52-Week Range (₹)	1,579 / 1,065.
BSE / NSE Code	ENDURANCE / 540153
Reuters / Bloomberg	ENDU.NS / ENDU.IN

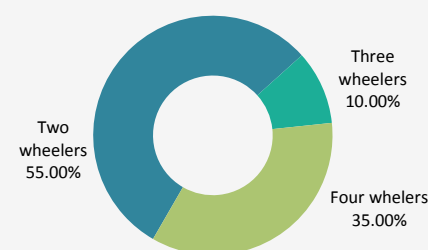
Shareholding Pattern (March 2019)



Relative Price Performance



Segment wise revenues of consol business - FY18



Company profile

- Key business segments

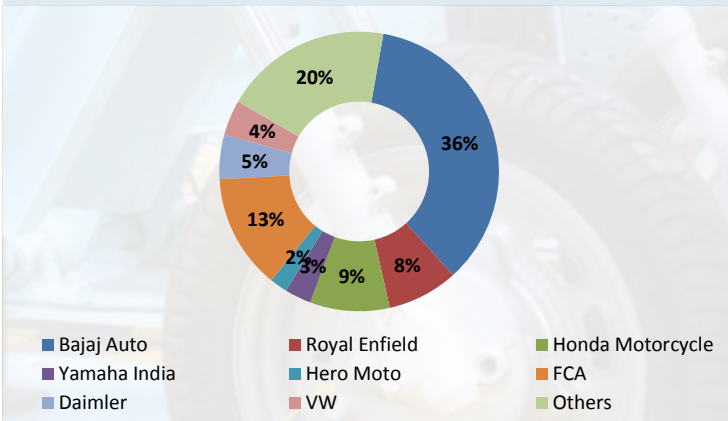
Endurance is a Tier-1 supplier to the 2-wheeler, 3-wheeler and 4-wheeler segments. It supplies in four main categories of 1). Aluminium die-casting and machining 2). Suspension components like shock absorbers and front forks 3). Transmission components such as clutch assemblies, friction plates & continuous variable transmission systems 4). Braking components such as disc & drum brake assemblies, rotary discs and brake pads.

As far as regional mix is concerned, 71% of the topline in FY 18 came from domestic business, while 29% came in from Europe. In India, 50% of the revenue came from their proprietary business which consists of suspension, transmission and braking systems in FY2018. Endurance mainly caters to 2-wheeler and 3-wheeler OEMs in India. In Europe, their key customers are 4-wheeler OEMs.

The company earned 55% of the consolidated revenue from 2-wheelers, 10% from 3-wheelers and remaining 35% from 4-wheelers in FY2018. 2-wheelers contributed 75.5%, 3-wheelers contributed 13% and 4-wheelers contributed 6.5% to the standalone revenue in FY2018.

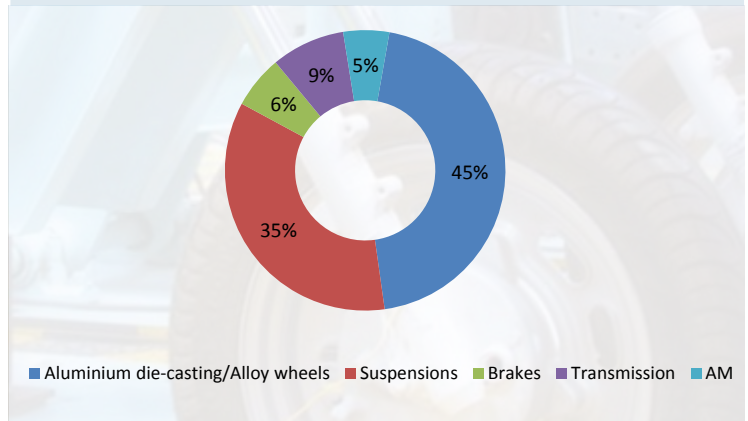
The company derives the bulk of its business from Bajaj Auto, Fiat Chrysler, Honda Motorcycle, Royal Enfield and Daimler on consolidated basis. The company derived ~70% of the revenue from top-5 customers in FY2018. Other key customers include Hero MotoCorp, Piaggio, Yamaha India and Volkswagen. In Bajaj and RE, Endurance's content per vehicle are >15%, whereas in Hero and Honda it is <10% ex-factory price of vehicles.

Customer wise break-up of consolidated revenues



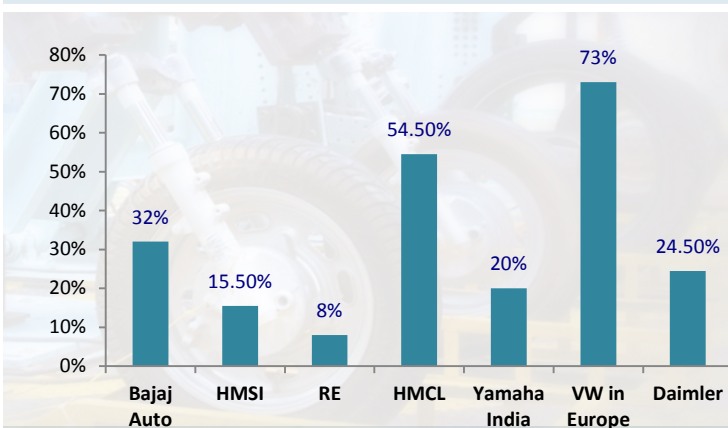
Source: Company, LKP Research

Product wise break-up of standalone revenues



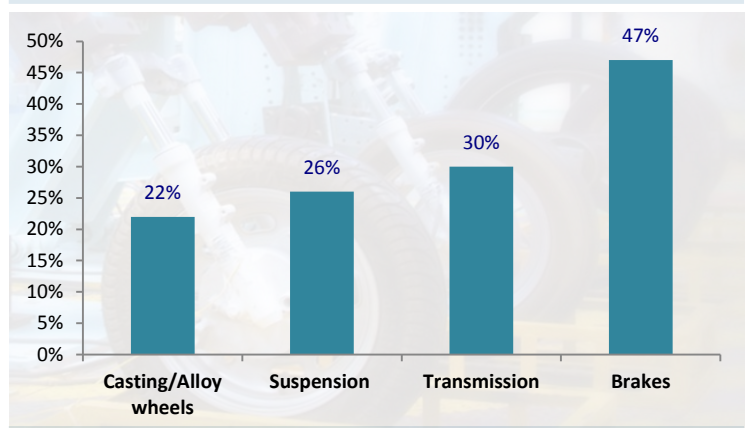
Source: Company, LKP Research

Growth in customers business within Endurance in 9M YTD FY19



Source: Company, LKP Research

Growth in product wise revenues in 9M YTD FY19



Source: Company, LKP Research

• **Manufacturing plants**

Endurance has built up its plants around its clients plants. Endurance started manufacturing of aluminium castings in Aurangabad, India in 1986. Today, it has 16 manufacturing plants in India and nine manufacturing plants in Europe. Out of the 16 plants, 11 plants are located in Maharashtra, two in Uttarakhand, two in Gujarat and one in Tamil Nadu. Out of the nine plants in Europe, three are located in Germany and six are located in Italy. It also has four research and development centers in India located in Maharashtra. Aurangabad and Pune plants supply to most of the domestic customers and they export to Getrag Ford transmission, Fiat Chrysler, Renault PSA and Piaggio. Sanand facility caters to Honda Motors and Scooter India. Chennai facility caters to Hyundai Motor India and Royal Enfield.

• **India business - Top supplier to the domestic 2Ws and 3Ws**

The company has four divisions as such –

1). Aluminium die-casting and machining –

Key products in this segment include cylinder heads & head covers, crank cases, cylinder blocks, transmission covers, swing arms, rear arms, alloy wheels, handle bars, fly wheel side covers, case transaxles, clutch housings, gear box housings, cam carriers etc. for 2-wheelers, 3-wheelers and 4-wheelers, which together accounted for 50% of the standalone revenue in FY2018. . In this business, Endurance is the market leader with annual capacity of ~100,000 MT

2). Transmission

Key products in this segment include clutch assemblies and friction plates for 100cc to 500cc motorcycles, 3-wheelers, small commercial vehicles and quadricycles. They also make CVTs and friction plates for 110 cc scooters. Japan based companies FCC and XAD are its closest competitors in this business.

3). Suspension-

Key products in this segment include shock absorbers for all 2Ws including motorcycles and scooters, 3W and quadricycles. They also make front forks for 100cc to 500cc motorcycles. In this business, Endurance is the market leader with tough competition from the likes of Munjal Showa and Gabriel India.

4). Braking systems –

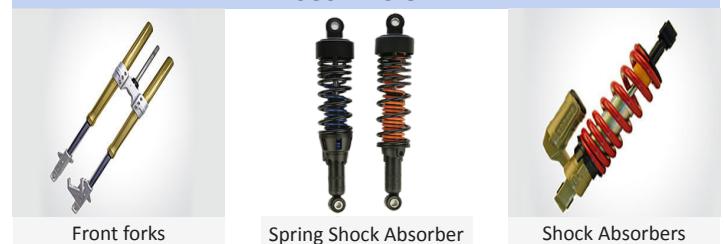
Key products in this segment include rotary discs, disc and brake pads to 125cc to 500cc motorcycles. They also make tandem master cylinder sub-assemblies, asbestos free brake shoes and drum brake assemblies for 3-wheelers. Italy based Brembo and Japan based Nissin are its competitors in this business

PRODUCTS

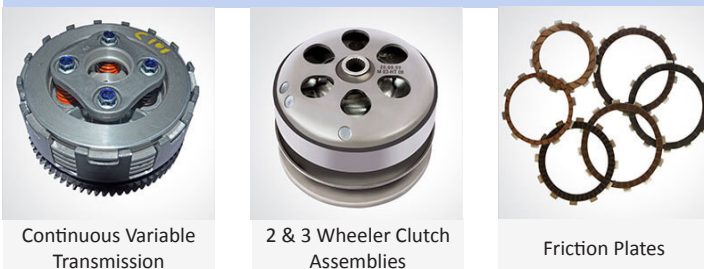
ALUMINIUM DIE CASTING



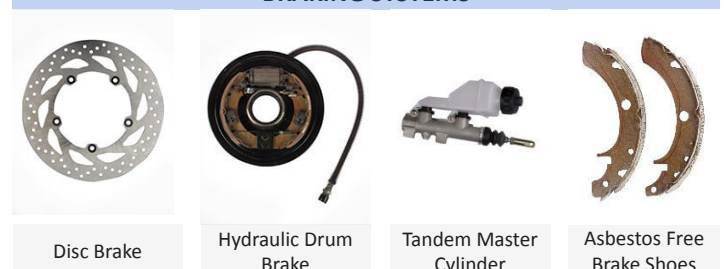
SUSPENSION



TRANSMISSION



BRAKING SYSTEMS



- **Europe business – Wide variety of products catering to strong clientele**

Endurance has adopted both organic and inorganic strategy to expand its European business. The company has an SPV—Endurance Overseas Srl in Italy for making strategic overseas investment and a subsidiary Endurance SpA (including merged entity of Endurance Fondalmec Italy and Endurance FOC in January). The company has also has a subsidiary, Endurance Amann GmbH, in Germany.

They manufacture aluminium die-casting and machining products. Key products in this segment include steel wheel hubs, head axles, gear box housing, torque converter, machine cast iron exhaust manifold, engine parts like cylinder heads & head cover, crank axles, etc.

Geographical Mix

	FY 14	FY 15	FY 16	FY 17	FY 18
Gross revenues(₹ mn)					
India	34,317	38,402	40,469	42,802	47,690
Europe	10,900	14,070	15,707	17,110	18,970
Total	45,217	52,471	56,176	59,912	66,660
Revenue mix(%)					
India	75.9%	73.2%	72.0%	71.4%	71.5%
Europe	24.1%	26.8%	28.0%	28.6%	28.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
yoy growth%					
India		11.9%	5.4%	5.8%	11.4%
Europe		29.1%	11.6%	8.9%	10.9%
Total		16.0%	7.1%	6.7%	11.3%
EBITDA(₹ mn)					
India	4,037	4,144	4,384	4,710	5,896
Europe	1,371	1,905	2,389	2,873	3,381
Total	5,408	6,049	6,773	7,583	9,277
EBITDA mix (%)					
India	74.6%	68.5%	64.7%	62.1%	63.6%
Europe	25.4%	31.5%	35.3%	37.9%	36.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
EBITDA margins (%)					
India	11.8%	10.8%	10.8%	11.0%	12.4%
Europe	12.6%	13.5%	15.2%	16.8%	17.8%
Total	12.0%	11.5%	12.1%	12.7%	13.9%

Source: Company, LKP Research

Customer wise revenues

(₹ mn)	FY 14	FY 15	FY 16	FY 17	FY 18
Domestic customers					
Bajaj Auto	20,237	21,238	21,396	20,801	22,674
Royal Enfield	1,376	2,183	3,193	4,151	5,231
Honda Motorcycles	2,000	2,000	3,143	4,086	5,884
Yamaha India	1,500	1,500	1,500	1,532	1,961
Hero	-	-	-	735	1,308
Four wheelers	-	-	-	-	3,017
AM	-	-	1,850	2,120	2,415
Others	6,107	8,179	5,514	5,372	3,921
Domestic revenues	31,220	35,100	36,596	38,797	46,411

Revenue mix(%)					
Bajaj Auto	64.8%	60.5%	58.5%	53.6%	48.9%
Royal Enfield	4.4%	6.2%	8.7%	10.7%	11.3%
Honda Motorcycles	6.4%	5.7%	8.6%	10.5%	12.7%
Yamaha India	4.8%	4.3%	4.1%	3.9%	4.2%
Hero	0.0%	0.0%	0.0%	1.9%	2.8%
Four wheelers	0.0%	0.0%	0.0%	0.0%	6.5%
AM	0.0%	0.0%	5.1%	5.5%	5.2%
Others	19.6%	23.3%	15.1%	13.8%	8.4%
Domestic revenues	100.0%	100.0%	100.0%	100.0%	100.0%

Revenue growth					
Bajaj Auto		4.9%	0.7%	-2.8%	9.0%
Royal Enfield		58.6%	46.3%	30.0%	26.0%
Honda Motorcycles		0.0%	57.2%	30.0%	44.0%
Yamaha India		0.0%	0.0%	2.1%	28.0%
Hero		0.0%	0.0%	0.0%	78.0%
Four wheelers		0.0%	0.0%	0.0%	0.0%
AM		0.0%	0.0%	0.0%	0.0%
Others		33.9%	-32.6%	-2.6%	-27.0%
Domestic revenues		12.4%	4.3%	6.0%	19.6%

Source: Company, LKP Research

Key components supplied to major OEMs

Products	Aluminium die casting/ Alloy wheels	Suspensions	Transmissions	Brakes
Bajaj Auto	Y	Y	Y	Y
Honda	Y	Y		
Hero Motocorp	Y	Y		
Tata Motors	Y			
Royal Enfield	Y	Y	Y	Y
Yamaha	Y	Y		
Suzuki		Y		
TVS				Y
Mahindra			Y	
Piaggio			Y	
H-D Motor India Company		Y		
Hyundai	Y			
Kia Motors	Y			
Renault Nissan	Y			
FCA Italy	Y			
Daimler	Y			

Source: Company, LKP Research

Product wise breakup of domestic business

	FY 16	FY 17	FY 18	FY 19E	FY 20E	FY 21E
Shock absorbers	13,436	14,381	16,739	19,947	24,311	29,367
Disc brake Assembly	2,509	2,868	2,909	4,643	8,774	9,582
Aluminium die castings/Alloy wheels	18,049	18,319	21,461	21,837	23,206	25,006
Clutch & clutch parts	3,237	3,296	4,054	4,540	4,994	5,294
Others	3,237	3,938	2,528	3,033	3,640	4,368
Total	40,469	42,802	47,690	54,001	64,924	73,616

Revenue mix

Shock absorbers	33.20%	33.60%	35.10%	36.9%	37.4%	39.9%
Disc brake Assembly	6.20%	6.70%	6.10%	8.6%	13.5%	13.0%
Aluminium die castings/Alloy wheels	44.60%	42.80%	45.00%	40.4%	35.7%	34.0%
Clutch & clutch parts	8.00%	7.70%	8.50%	8.4%	7.7%	7.2%
Others	8.00%	9.20%	5.30%	5.6%	5.6%	5.9%
Total	100.00%	100.00%	100.00%	100.0%	100.0%	100.0%

Revenue growth (%)

Shock absorbers	7.0%	16.4%	19.2%	21.9%	20.8%
Disc brake Assembly	14.3%	1.4%	59.6%	89.0%	9.2%
Aluminium die castings/Alloy wheels	1.5%	17.1%	1.8%	6.3%	7.8%
Clutch & clutch parts	1.8%	23.0%	12.0%	10.0%	6.0%
Others	21.6%	-35.8%	20.0%	20.0%	20.0%
Total	5.8%	11.4%	13.2%	20.2%	13.4%

Revenue mix (%)

Proprietary business	47.40%	48.00%	49.70%	53.94%	58.65%	60.10%
Non-proprietary business	52.60%	52.00%	50.30%	46.06%	41.35%	39.90%

Source: Company, LKP Research

Investment Argument

- **India business – Increase in content per vehicle, market share gains to drive growth**

We expect domestic 2-wheeler transmission and braking component industry revenues to grow at 10% and 30% CAGR respectively over FY2018-21E, much faster than our expectations of 5% CAGR in domestic 2-wheeler and 3-wheeler industry production. This will be driven by increase in content per vehicle due to regulatory requirements such as use of ABS and CBS in 2-wheelers, shift to front forks instead of shock absorbers in scooters and introduction of dual disc brakes in premium bikes. We expect Endurance to gain market share in these segments due to superior technology and scale benefits and increase in market share with Royal Enfield, Hero and Honda Motorcycles.

Endurance Technologies' strategy is to gain volumes from OEMs, where its market share is low, by aggressive pricing strategy versus its competitors. The company has excellent R&D capability and is focused on cutting costs through automation, in-sourcing of components (which can help it save costs). In aluminium casting and suspension components (shock absorbers and front forks), the company is the largest player in the 2-wheeler industry, which it leverages to get scale advantages from suppliers.

Endurance is also benefitting from diversification strategy of Hero Motocorp and Honda Motorcycles, which are shifting from their existing supplier base to reduce dependence on common suppliers. New safety regulations, which are likely to come through in 2-wheeler industry in April 2019, will also benefit the company as demand for its proprietary products (like disc brakes and front forks) will likely increase.

- **Transition to front forks from shock absorbers in HMSI - A major driver for Suspension business**

Endurance Technologies is the largest supplier of front forks and shock absorbers for the Indian 2-wheeler and 3-wheeler industry. Currently, shock absorbers are primarily used in scooters of HMSI and mopeds, while front forks are used in motorcycles and all the scooter models. As per the management, Honda intends to shift to front forks (as it offers better suspension) in all its scooter models over the next three years, which will lead to increase in suspension content per vehicle as the cost of set of front forks is double that of set of shock absorbers. Endurance has won new business for front forks from HMSI (first order for 50K inverted forks annually, starting June 2020) and Hero MotoCorp, which will drive market share gains for the company over the next five years. Bajaj and KTM are their key clients in inverted forks. Their 2- suspension plant at Halol, Gujarat started production in September 2018 and is now supplying 100% of front fork and shock absorber requirement of Hero MotoCorp's Halol plant. At Kolar, Karnataka, the company is starting to supply front forks and shock absorbers to HMSI from Q2 FY20.

Suspension components	2018	2019E	2020E	2021E
Industry size of suspension components				
Shock absorbers				
No. of vehicles (mn)	6.0	6.2	5.1	4.1
Content per vehicle (₹)	1200	1210	1220	1232
Industry size (₹ bn)	7.1	7.5	6.2	5.1
Front forks				
No. of vehicles	18.2	20.2	23.1	25.5
Content per vehicle (₹)	2600	2630	2654	2681
Industry size (₹ bn)	47.4	53.1	61.3	68.4
Overall industry size of Suspension components(₹ bn)	54.5	60.6	67.5	73.4
Content per vehicle	2255	2292	2368	2457
Segment Revenues of Endurance(₹ bn)	16.7	19.9	24.3	29.4
Market share	29.9%	32.90%	36%	40%

Source: Company, LKP Research

As per our calculations, average content per vehicle for shock absorbers in 2W and 3W is about ₹1,200 per vehicle, while the average content per vehicle of a front fork about ₹ 2,600 per vehicle. On account of HMSI's shift to front forks, Endurance will gain a hike in content per vehicle. Also the new business win from Hero Motocorp to supply front forks and rear shock absorbers will further drive the segmental revenues. The industry size of suspension components which includes shock absorbers and front forks

is ₹54 bn with content per vehicle about ₹2250. We expect this industry to grow at a CAGR of ~10% in the period between FY18-21E and Endurance's market share to expand from current 30% to 40% during the same period.

- **Introduction of safety regulations from April 2019 provides a wide opportunity for Endurance**

ABS and CBS will become mandatory by April 2019 for 2-wheeler models in India. As per government regulations, Combined Braking System (CBS) is mandatory in all 2-wheelers with engine size of <125 cc while Antilock Braking System (ABS) is mandatory in 2-wheelers with engine size of >125 cc from April 1, 2019. We note that these regulations will also lead to increase in penetration of disc brakes as OEMs will likely offer dual-channel ABS to customers, which would imply compulsory disc brakes in both front and rear wheels (currently most premium bikes have front disc brake and rear drum brakes). Due to these mandatory changes, braking content will increase significantly by FY2020. Endurance had around 8% market share in this segment in FY2018, which will likely increase to 12-13% by FY2021 leading to 50% segmental revenue CAGR for the company over FY2018-21E.

The company has gained its first ever order for front brake assembly from TVS in this segment, which is worth ₹400 mn (1000 sets per day), which may gradually expand to other businesses of Endurance too. In line with the increasing demand, the company is expanding its rare disc brakes capacities in this business. In March 2019, its capacities have touched 275,000 disc brakes per month from 185,000 per month, which further in FY 20 is planned to reach 300,000 per month. Also Endurance is setting up capacity of 400,000 units of ABS to start from Q3 FY20 to capture the upcoming opportunity. The company is in a tie-up with US based BWI for ABS test and evaluation.

We derive the Braking component system industry size at ₹36 bn, which includes disc and drum brakes, CBS and ABS. In the period between FY18-21E, we expect the industry to grow at a 30% CAGR, while Endurance's segmental revenues to grow at 50% in the same period. Bajaj Auto and Royal Enfield being the biggest customers of Endurance, the opportunity in the braking component industry will enable Endurance to fancy their chances maximum with these two clients. Bajaj Auto has been performing well since FY 18 once again in both domestic and exports, due to which we believe a healthy growth to get associated with Endurance from this client.

Braking components	2018	2019E	2020E	2021E
CBS				
No. of vehicles (mn units)	6.9	7.2	20.7	21.7
Content per vehicle (₹)	350	357	361	365
Industry size (₹ bn)	2.4	2.6	7.5	7.9
ABS				
No. of vehicles (mn units)			3.4	3.6
Content per vehicle (₹)			5,000	5,110
Industry size (₹ bn)			17.0	18.4
Drum brakes				
No. of vehicles (mn units)	21.8	23.5	23.8	25
Content per vehicle (₹)	1000	1012	1020	1028
Industry size (₹ bn)	21.8	23.8	24.3	25.7
Disc brakes				
No. of vehicles (mn units)	2.3	2.8	4.9	5.2
Content per vehicle (₹)	5,000	5,010	5,050	5,100
Industry size (₹ bn)	11.7	14.0	24.7	26.5
Overall industry size of Braking components system (₹ bn)	36.0	40.4	73.5	78.5
% yoy growth		12.2%	81.9%	6.9%
Segment revenues of Endurance (₹ bn)	2.9	4.6	8.8	9.6
Market share	7.9%	11.5%	12.0%	12.2%

Source: Company, LKP Research, SIAM

- **Increase in Aluminum content in PV segment in India and Europe to drive business**

Endurance Technologies is the largest aluminium casting manufacturer for the Indian 2-wheeler and 3-wheeler industry. 2-wheeler engines are made of mostly aluminium and hence Endurance needs to increase its share of business with 4-wheelers to grow faster than the 2-wheeler industry's growth rate. Endurance has made some progress with Hyundai-Kia group in India in the aluminium casting business and won an order worth ₹ 1.68 bn, which will be executed in FY2021.

Engine components such as cylinder block, cylinder heads, camshafts, piston, etc. are major casting components in a 2-wheeler. According to our calculations, the overall industry size of aluminium die casting alloy wheels was about ₹125 bn in FY 18. The content per vehicle was about ₹5,180/vehicle. We expect the Indian aluminium die-casting/alloy wheels industry to grow at a CAGR of 9% in the period between FY 18-21E broadly in line with our expectations of 7% growth in the 2W and 3W production in the same period.

We believe Endurance has an opportunity to scale up with Indian 4-wheeler customers due to its scale in aluminium casting business. In Europe as well, passenger vehicle OEMs are shifting to aluminium components as the need for light weighting to improve fuel efficiency is increasing in both ICE (Internal Combustion Engine) and electric vehicles penetration rises. Endurance is well-placed to benefit from this trend in European business as well.

However, this industry itself may face some hurdles going forward if there is a material shift in scooters to Electric Vehicles in India where casting content would be lesser in EVs as compared to ICE scooters. Hence, we do not expect this industry to grow at a great pace. Endurance has about 17% market share in this segment (45% of standalone topline in FY 18), which we expect to lie somewhere close to 25% in FY 21.

In Chennai, Endurance have purchased approximately 9 acres of land at Vallam for their second die-casting and machining plant at Chennai and are targeting to start the production in the end of the third quarter of 2019-2020. The customers to start with will be Hyundai, Royal Enfield and Kia Motors.

Aluminium die casting	2018	2019E	2020E	2021E
India 2W/3W aluminium die casting industry size(mn units)				
2W and 3W industry production	24	26.1	27.5	29.5
yoy growth (%)	16.70%	8%	5.50%	7%
Content per vehicle	5,177	5,229	5,333	5,440
yoy growth (%)	5.70%	1%	2%	2%
Size of die casting industry (₹ bn)	125.1	136.5	146.9	160.3
yoy growth (%)	23.40%	9.1%	7.6%	9.1%
Segment Revenues of Endurance (₹ bn)				
Market share	21	22	23	25
	17.2%	16.00%	15.80%	16%

Source: Company, LKP Research, SIAM

- **Rising share of proprietary business to improve margins in India**

Endurance's casting business is lower-margin business than the transmission, braking and suspension business (proprietary business) as Endurance develops the transmission and suspension business through its own in-house R&D while in casting business, Endurance is dependent on designs from the OEMs. Endurance has been scaling up its proprietary business led by stricter safety regulations in 2-wheelers in India, which should result in share of proprietary business to increase to 58% of standalone revenues in FY2021 from 50% in FY2018.

- **Federation of Automobiles Dealers Association (FADA) sees green shoots in the auto industry**

FADA announced recently that they have started seeing green shoots in the auto industry and has seen the retail sales closing the year on a positive note. 2-wheelers (the major business segment of Endurance) particularly have grown at 10% sequentially, which indicates slight improvement in consumer sentiments and liquidity availability. Recent production cuts taken by various OEMs have led to considerable reduction in inventory levels, which for 2 wheelers have come down from 90-100 days

to 45-50 days. FADA also believes that worst for the auto industry is behind us and expects plateauing of demand for the next 4-6 weeks till the elections get over. Post that with monsoons and the new government setting in, the industry is expected to see revival as we get into the festive season. They also mentioned that there has been an increase in enquiry levels which signifies that level of interest within the consumers is rising again.

- **Increase in Aluminum content in cars to elevate European business performance**

Aluminium is finding great application in European vehicle industry. It is used in vehicle chassis, body (doors, hoods and trunk lids, bumpers, crash boxes), wheels etc. In EVs also aluminum will be used in the cases that carry electric batteries. The structures must provide thermal transfer capabilities to keep the battery cool or keep it warm in cold weather; therefore, aluminum will be an ideal choice of materials. Aluminum will also be used in brake components, in order to boost the braking efficiency of EVs. It is an excellent heat conductor, which means brake heat is quickly dispersed, while also offering sufficient wear-resistance. As per Commodity market Analysts (CRU Group), aluminum content is 25-27% higher in an electric vehicle compared to that of an ICE vehicle.

According to European Aluminium Association (EAA), average aluminum content in passenger vehicles in Europe was around 150 kgs in CY2016, which is expected by them to move up to 200 kgs per vehicle by CY 2025E. We expect aluminium die-casting industry in Europe to grow at 5% CAGR over CY 18-21E, which would be higher than street expectations of 1% CAGR for the European PV industry. The two main drivers for increase in Aluminium content in European vehicles hereon are - (A) shift to aluminum (from steel) by automotive OEMs due to need for light-weighting to improve fuel efficiency and achieve stringent emission norms and (B) increase in penetration of electric vehicles in Europe. Endurance has a presence in this market, albeit with a small market share of 2-3% in a fragmented market, stands a great opportunity to increase it from now on the back of these factors. In the third quarter of 2018-2019, despite a reduction of 1.4% in terms of turnover, the company's Ebitda margins moved up from 18.3% of 2017-2018 to 19.8% in 2018-2019. And this is an effect of the mix of product with more added value in the new Volkswagen order. Also the strategy of the company of targeting only Tier 1 OEMs like VW, Daimler, Fiat etc has paid off as Endurance supplies only large complex castings to them, which is at the upper end of the market, where the heat of fragmented market is less felt.

Endurance's 100% European subsidiary, Endurance Overseas Srl has acquired a 100% equity stake in Fonpresmetal Gap SpA, an aluminum die casting company in Bione, Italy. This company has a capacity of 6,500 metric tons per annum and sales of Euro 27.5 mn in 2018. 50% of these sales are to the Endurance group companies in Europe. This acquisition will help in backward integration and strengthening of the die-casting operations, which is important for the European business.

European aluminium die-casting size	2017	2018	2019E	2020E	2021E
Passenger vehicle production in Europe (mn units)	17	17.1	17.3	17.5	17.8
% yoy		0.6%	1.2%	1.2%	1.7%
Content per vehicle (USD/vehicle)	660	712	726	763	793
% yoy	25%	7.9%	2%	5%	4%
Size of die casting industry (USD mn)	11,220	12,175	12,564	13,345	14,116
yoy growth (%)		8.5%	3.2%	6.2%	5.8%
Aluminium content (kgs/vehicle)	153	157	161	164	167
yoy growth (%)					
Revenues of Endurance(in USD mn)	285	292	302	320	339
Market share of Endurance (%)	2.5%	2.4%	2.40%	2.40%	2.40%

Source: Company, LKP Research, ACEA

Outlook and Valuation

Endurance's valuations are comparable with Tier-1 auto component suppliers in India and global automotive component manufacturers. Global automotive component suppliers are trading at an average one-year forward P/E multiple of ~9X while Tier-1 auto component suppliers in India are trading at an average P/E multiple of ~20-25X on FY2021E EPS estimates. 71% of Endurance's revenues come from India and 29% of revenues from European aluminium casting business. Endurance Technologies is likely to trade at a premium valuation to its Indian and global peers as it is growing at a faster rate than them. Endurance currently trades at 40% premium to its Indian auto component peers on our FY21E EPS versus others. We believe the company to grow at a pace higher than the 2W industry in line with the upcoming growth opportunities. With high return ratios and superior margin profile, tight capex control (consolidation of capex and sweating of recently invested assets will be the focus in coming years), we believe Endurance deserves the premium at which it trades. Also, with the recently concluded OFS, we believe that the overhang of promoter dilution is out of the way. Currently, on FY 21E earnings of ₹48, the stock is trading at 24x with a PEG of 1.6. Hence, we assign a multiple of 29x on FY 21E earnings to arrive at a target price of ₹ 1,399, with a **BUY** rating.

Standalone Income Statement

YE Mar (₹.mn)	FY 18	FY 19E	FY 20E	FY 21E
Total Revenues	46,411	54,001	64,924	73,616
Raw Material Cost	30,270	34,938	41,876	47,114
Employee Cost	2,547	3,078	3,571	4,049
Other Exp	7,698	8,910	10,583	11,926
EBITDA	5,896	7,074	8,895	10,527
EBITDA Margin(%)	12.7%	13.1%	13.7%	14.3%
Other Income	191	220	250	280
Depreciation	1,696	1,750	2,250	2,550
EBIT	4,200	5,324	6,645	7,977
EBIT Margin(%)	9.0%	9.9%	10.2%	10.8%
Interest	102	150	140	130
PBT	4,289	5,394	6,755	8,127
PBT Margin(%)	9.2%	10.0%	10.4%	11.0%
Tax	1,304	1,672	2,161	2,601
PAT	2,716	3,722	4,593	5,526
PAT Margins (%)	5.9%	6.9%	7.1%	7.5%
Exceptional items	269	0	0	0
Adj PAT	2,985	3,722	4,593	5,526
Adj PAT Margins (%)	6.4%	6.9%	7.1%	7.5%

Subsidiaries Income Statement (Derived)

YE Mar (₹.mn)	FY 18	FY 19E	FY 20E	FY 21E
Total Revenues	18,970	20,504	20,818	21,344
Raw Material Cost	8,176	8,612	8,702	8,964
Employee Cost	3,262	3,486	3,622	3,757
Other Exp	4,150	4,470	4,622	4,802
EBITDA	3,381	3,937	3,872	3,821
EBITDA Margin(%)	17.8%	19.2%	18.6%	17.9%
Other Income	45	50	100	150
Depreciation	1,520	1,760	1,850	1,920
EBIT	1,861	2,177	2,022	1,901
EBIT Margin(%)	9.8%	10.6%	9.7%	8.9%
Interest	133	200	220	250
PBT	1,773	2,027	1,902	1,801
PBT Margin(%)	9.3%	9.9%	9.1%	8.4%
Tax	582	649	590	540
PAT	1,192	1,378	1,312	1,260
PAT Margins (%)	6.3%	6.7%	6.3%	5.9%
Exceptional items	0	0	0	0
Adj PAT	1,192	1,378	1,312	1,260
Adj PAT Margins (%)	6.3%	6.7%	6.3%	5.9%

Quarterly Standalone Financials

(₹.mn)	Q3 FY19	Q2 FY19	% qoq	Q3FY18	% yoy
Net sales	13,269	14,351	-7.5%	10,793	23.0%
Raw material costs	8,758	9,488	-7.7%	6,853	27.8%
Employee costs	724	683	6.0%	615	17.7%
Other expenses	2,178	2,325	-6.3%	1,883	15.7%
EBITDA	1,609	1,855	-13.3%	1,441	11.7%
EBITDA margins %	12.1%	12.9%	(80 bps)	13.4%	(130 bps)
Other income	37	53	-29.9%	30	24.1%
Depreciation	460	432	6.5%	432	6.6%
Interest expenses	56	38	46.8%	14	293.6%
PBT	1,131	1,438	-21.4%	1,025	10.3%
Tax	293	492	-40.4%	269	9.0%
Adj. PAT	837	946	-11.5%	756	10.8%
Adj EPS (₹)	5.95	6.72	-11.5%	5.37	10.8%
Exceptional items	208	-	N/A	269	N/A
Reported PAT	629	946	-33.5%	487	29.2%

Quarterly Consolidated Financials

(₹.mn)	Q3 FY19	Q2 FY19	% qoq	Q3FY18	% yoy
Net sales	18,130	19,367	-6.4%	15,386	17.8%
Raw material costs	10,594	11,566	-8.4%	8,618	22.9%
Employee costs	1,676	1,558	7.6%	1,466	14.3%
Other expenses	3,330	3,446	-3.4%	3,031	9.9%
EBITDA	2,530	2,798	-9.6%	2,271	11.4%
EBITDA margins %	14.0%	14.4%	(40 bps)	14.8%	(60 bps)
Other income	93	80	16.9%	42	120.3%
Depreciation	936	921	1.6%	798	17.2%
Interest expenses	75	55	38.2%	47	59.9%
PBT	1,612	1,902	-15.2%	1,468	9.8%
Tax	439	650	-32.5%	417	5.2%
Adj. PAT	1,174	1,252	-6.3%	1,051	11.7%
Adj EPS (₹)	8.34	8.90	-6.3%	7.47	11.7%
Exceptional items	208	-	N/A	269	N/A
Reported PAT	966	1,252	-22.9%	782	23.5%

Source: Company, LKP Research

Consolidated Financial

Income Statement

YE Mar (₹.mn)	FY 18	FY 19E	FY 20E	FY 21E
Total Revenues	65,381	74,505	85,742	94,960
Raw Material Cost	38,446	43,550	50,578	56,078
Employee Cost	5,809	6,564	7,193	7,805
Other Exp	11,848	13,380	15,204	16,728
EBITDA	9,277	11,011	12,767	14,348
EBITDA Margin(%)	14.2%	14.8%	14.9%	15.1%
Other Income	236	270	350	430
Depreciation	3,216	3,510	4,100	4,470
EBIT	6,061	7,501	8,667	9,878
EBIT Margin(%)	9.3%	10.1%	10.1%	10.4%
Interest	235	350	360	380
PBT	6,062	7,421	8,657	9,928
PBT Margin(%)	9.3%	10.0%	10.1%	10.5%
Tax	1,886	2,321	2,751	3,141
PAT	3,907	5,100	5,906	6,787
PAT Margins (%)	6.0%	6.8%	6.9%	7.1%
Exceptional items	269	0	0	0
Adj PAT	4,176	5,100	5,906	6,787
Adj PAT Margins (%)	6.4%	6.8%	6.9%	7.1%

Key Ratios

YE Mar	FY 18	FY 19E	FY 20E	FY 21E
Per Share Data (₹)				
Adj. EPS	29.7	36.3	42.0	48.2
CEPS	52.6	61.2	71.1	80.0
BVPS	154.5	185.3	221.0	262.0
DPS	0.5	2.1	0.5	3.0
Growth Ratios(%)				
Total revenues	16.9%	14.0%	15.1%	10.8%
EBITDA	22.3%	18.7%	15.9%	12.4%
PAT	18.3%	30.5%	15.8%	14.9%
EPS Growth	18.3%	30.5%	15.8%	14.9%
Valuation Ratios (X)				
PE	41.4	31.7	27.4	23.9
P/CEPS	21.9	18.8	16.2	14.4
P/BV	7.5	6.2	5.2	4.4
EV/Sales	2.5	2.1	1.8	1.6
EV/EBITDA	17.3	14.5	12.3	10.7
Operating Ratios (Days)				
Inventory days	46.9	45.0	44.0	43.0
Receivable Days	53.0	55.0	57.0	59.0
Payables day	61.8	64.0	68.0	70.0
Net Debt/Equity (x)	0.18	0.16	0.14	0.13
Profitability Ratios (%)				
ROCE	23.6%	24.7%	24.3%	23.7%
ROE	19.2%	19.6%	19.0%	18.4%
Dividend payout	10.1%	15.0%	15.0%	15.0%

Balance Sheet

YE Mar (₹. mn)	FY 18	FY 19E	FY 20E	FY 21E
Equity and Liabilities	1,407	1,407	1,407	1,407
Equity Share Capital	20,322	24,657	29,677	35,446
Reserves & Surplus	21,729	26,064	31,083	36,852
Total Networth	21,729	26,064	31,083	36,852
Total debt	3,803	4,103	4,403	4,703
Net Deferred Tax	-103	-103	-103	-103
Long term provisions	292	292	292	292
Current Liab & Prov				
Trade payables	11,284	13,064	15,974	18,211
Short term provisions	228	228	228	228
Other current liabilities	6,059	6,059	6,059	6,059
Total current liab and provs	17,571	19,351	22,261	24,499
Total Equity & Liabilities	43,293	49,708	57,937	66,244
Assets				
Net block	18,510	21,000	23,900	25,430
Capital WIP	640	990	1,340	1,690
Other non current assets	2,595	2,595	2,595	2,595
Total fixed assets	21,792	24,632	27,882	29,762
Cash and Bank	5,027	6,633	8,722	12,679
Inventories	4,939	5,369	6,097	6,607
Trade receivables	9,688	11,227	13,390	15,350
Loan, Advances & others	1,398	1,398	1,398	1,398
Other current assets	449	449	449	449
Total current Assets	21,501	25,076	30,056	36,482
Total Assets	43,293	49,708	57,937	66,244

Cash Flow

YE Mar (₹ mn)	FY 18	FY 19E	FY 20E	FY 21E
PBT	5,793	7,421	8,657	9,928
Depreciation	3,216	3,510	4,100	4,470
Interest	215	350	360	380
Chng in working capital	-18	-190	19	-232
Tax paid	-2,095	-2,321	-2,751	-3,141
Other operating activities	310	2	0	0
Cash flow from operations (a)	7,421	8,773	10,385	11,405
Capital expenditure	-4,453	-6,350	-7,350	-6,350
Chng in investments	6	0	0	0
Other investing activities	13	0	0	0
Cash flow from investing (b)	-4,355	-6,350	-7,350	-6,350
Free cash flow (a+b)	3,065	2,423	3,035	5,055
Inc/dec in borrowings	396	300	300	300
Dividend paid (incl. tax)	-423	-765	-886	-1,018
Interest paid	-208	-350	-360	-380
Cash flow from financing (c)	2,830	1,607	2,089	3,957
Net chng in cash (a+b+c)	2,196	5,026	6,633	8,722
Closing cash & cash equivalents	5,026	6,633	8,722	12,679

Source: Company, LKP Research

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