Buy | CMP: ₹865 | 12M Price Target ₹1,029

Endurance Technologies

Industry: Auto and Auto Components

Reversal of tyre venture decision alleviates investor concerns

Quarterly results buck the trend

Endurance's Q1 numbers came in above street expectations with margins zooming beyond expectations despite topline showing softness. On the topline front, the domestic revenues showed a 3.5% yoy and 1.5% qoq growth. This positive growth came in despite the underlying auto industry declining significantly. Due to a strong order book and constant business coming from existing clients, mainly the 2W companies this growth was possible. Domestic margins went up by 450 bps yoy and 250 bps qoq on Maharashtra Government tax incentives of ₹70 cr In Q1, tight control on costs, employee cost reduction associated with the Manesar plant closure, RM costs softening and inflow of business on the high margin proprietary side. Bottomline grew by 43.2% yoy and 17% qoq on strong operational performance despite higher depreciation costs. On the consol side, topline fell by 1.4% yoy better than the weakening European market, while EBITDA margins came at 17.9% which was an expansion of 230 bps. The growth was on the back of strong order book from the likes of VW and CNH. Net profits went up by 32.3% yoy at ₹1.65 bn.

Client orders in both domestic and European markets continue to flow in despite market challenges

Despite weak market conditions in India as well as Europe, the company continued to increase its order book. In the domestic markets, it expanded its order book by ₹1.88 bn in Q1 FY20, driven by orders coming in from some of its key clients like TVS, HMCL, HMSI, Tata Motors and Getrag. Yamaha India and HMSI grew by 6% each, while HMCL grew by 35% in Endurance's topline. The die casting business orders from Hyundai-Kia Motors is on track at ₹200 cr. TVS has taken forward its business flow further from earlier 2W disc brake assembly to 3W brakes assembly and suspensions. This has actually helped the company to increase its contribution from proprietary business to move up to 52-53% from 50-51% by the end of FY19. In line with the overall slowdown, there has been slight slowdown in client orders per se, but the fall in their business to Endurance are quite less than the overall sales slowdown. The businesses and orders that the company has gained over the past 1-2 years are acting as saving grace to the company. The Sanand plant supplying exclusively to HMSI is on track to produce 2.75 mn front forks annually while their Kolar plant is on track to come up shortly. In line with the current slowdown in the auto sector, the company has reduced their capex from ₹4.5 bn in FY19 to ₹3 bn in FY20E.

In Europe, high margin orders from VW, Porsche, CNH and FCA are leading to margin retention at 18%. The company gained €13 mn orders from Fiat in Q1 and is very closely associated with VW and Fiat's EV plans thus getting a good traction from this business segment. Despite a significant fall in European auto market, the company has reported a good 3% growth in Europe business. Going forward, there may be a contraction in demand (in line with weak July numbers in Germany, the biggest market for Endurance) leading to some setback for the company. Hence we have reduced our sales forecast for Europe at -3.4%/2.6% for FY20E/21E respectively.

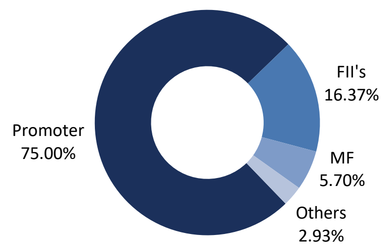
Margins to grow at a slow pace considering market slowdown

In Q1 standalone margins were reported at 18% as it included ₹70 cr of Maharashtra Government tax incentives. They were further rewarded by a shift to the proprietary business (~53% v/s ~50% at the end of FY19) as disc brakes business grew well with clients like TVS. Closure of Manesar and Takve plants over last couple of years are still benefitting the company at the employee costs level. Increase in outsourcing activities at vendors' ends is also helping the company to improve margins. As the Maharashtra Government incentives continues over five more years, we expect a total of ₹350 cr to accrue and benefit the margins on the domestic side. Continuous flow of new orders along with already allotted ones and improvement in auto sector may enable the company to fetch more orders and keep the margins afloat. However, considering the slowdown in Europe, we expect the margins over there to come down, thus pulling down the overall margins. We have cut down our margin estimates for full year to 15.3%/15.5% for the next two years.

Stock Data	
Current Market Price (₹)	865
12M Price Target (₹)	1,029
Potential upside (%)	19
BSE / NSE Symbol	ENDURANCE / 540153
Reuters / Bloomberg	ENDU NS / ENDU IN
FV (₹)	10
Market Cap Full (₹ bn)	12,167
52-Week Range (₹)	1,574 / 743

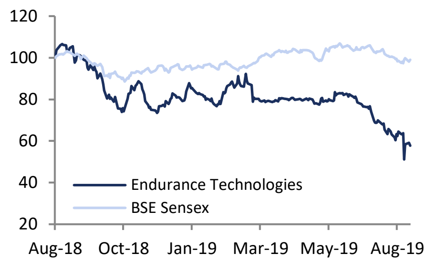
What's Changed	
12 M Price Target (₹)	From 1,399 to 1,029
FY2020E EPS (₹)	From 43.0 to 42.2
FY2021E EPS (₹)	From 48.2 to 46.8

Shareholding Pattern (June 2019)



YE Mar	FY 18	FY 19	FY 20E	FY 21E
Total sales(₹ bn)	65.4	75.1	81.7	90.1
EBITDA margin s(%)	14.2%	15.0%	15.3%	15.5%
PAT margins (%)	6.4%	6.9%	7.3%	7.3%
EPS (₹)	29.7	36.7	42.2	46.8
P/E (x)	31.1	24.6	20.5	18.5
PEG	1.7	0.9	1.0	1.7
P/BV (x)	5.6	4.7	4.0	3.4
EV/EBITDA(x)	13.0	10.6	9.6	8.5
ROE (%)	19.2%	20.1%	19.4%	18.1%
ROCE (%)	23.5%	25.1%	24.0%	23.1%

Relative Price Performance



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Revocation of tyre business foray, a sign of receptive and sound management quality

The management during the results conference call showed their intent to get into 2W and 3W tyre business, which we believe is already a crowded space and has immense competition impacting profitability of the sector. Tyre business is quite diverse from Endurance's core business and would have affected the margins and return ratios of the company. Capital intensive nature of this business would have impacted the existing business profile. However, timely and responsive behavior of the management in line with the minority shareholders' concerns led to withdrawal of this plan. This further strengthens our comfort level and trust in the management.

Consolidated quarterly results

₹ mn	Q1 FY20	Q4 FY19	% qoq	Q1FY19	% yoy
Net sales	19,092	19,003	0.5%	19,367	-1.4%
Raw material costs	10,352	10,438	-0.8%	11,566	-10.5%
Employee costs	1,793	1,633	9.8%	1,558	15.1%
Other expenses	3,533	3,687	-4.2%	3,446	2.5%
EBITDA	3,414	3,246	5.2%	2,798	22.0%
EBITDA margins %	17.9%	17.1%	80 bps	14.4%	230 bps
Other income	68	56	21.4%	80	-14.7%
Depreciation	927	1,085	-14.5%	921	0.7%
Interest expenses	58	68	-14.7%	55	6.4%
PBT	2,497	2,149	16.2%	1,902	31.3%
Tax	840	662	26.9%	51	1547.6%
Adj. PAT	1,656	1,487	11.4%	1,252	32.3%
Adj EPS (₹)	11.77	10.57	11.4%	8.90	32.3%
Exceptional items	-	-	N/A	-	N/A
Reported PAT	1,656	1,487	11.4%	1,252	32.3%

Standalone quarterly results

(₹ mn	Q1 FY20	Q4 FY19	% qoq	Q1FY19	% yoy
Net sales	13,611	13,406	1.5%	13,149	3.5%
Raw material costs	8,238	8,437	-2.4%	8,555	-3.7%
Employee costs	756	689	9.8%	681	11.1%
Other expenses	2,162	2,203	-1.9%	2,134	1.3%
EBITDA	2,455	2,077	18.2%	1,779	38.0%
EBITDA margins %	18.0%	15.5%	250 bps	13.5%	450 bps
Other income	33	43	-23.3%	29	14.6%
Depreciation	486	449	8.2%	40	1114.5%
Interest expenses	36	44	-18.2%	34	5.9%
PBT	1,966	1,627	20.8%	1,358	44.7%
Tax	676	525	28.8%	458	47.7%
Adj. PAT	1,290	1,102	17.0%	901	43.2%
Adj EPS (₹)	9.17	7.84	17.0%	6.40	43.2%
Exceptional items	-	-	N/A	-	N/A
Reported PAT	1,290	1,102	17.0%	901	43.2%

Outlook and Valuation

Endurance posted a commendable show in Q1 and can be rated as one of the best performances in the auto sector in the quarter. Accrual of strong order book built earlier and further addition to it is aiding the company to post strong numbers in difficult times. Expectations of some revival in the auto industry with good monsoons, better festive season, BS VI pre-buying and expectations of some sops coming from the GOI may help furthermore to the company's performance. Europe may turn to be a market of concern considering on going weakness in its key markets like Germany and Italy. However, EV wave in Europe and close association with the VW group and FCA is providing a continuous flow of strong orders irrespective of slowdown, thus leading Endurance to post better than industry numbers. Sound management, healthy return ratios and margins, wide array of profitable business segments and ability to trade through rough waters leads us to maintain BUY on the stock despite pruning down our estimates a bit. At 18.5x FY21E earnings, the stock looks quite attractive to us. We maintain BUY on the stock with TP of ₹1,029 (@ 22x FY21E earnings).

Financials (Consolidated)

Income statement

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
Total Revenues	**65,381**	**75,104**	**81,682**	**90,081**
Raw Material Cost	38,446	43,494	47,520	52,152
Employee Cost	5,809	6,527	6,859	7,492
Other Exp	11,848	13,795	14,794	16,496
EBITDA	**9,277**	**11,288**	**12,510**	**13,941**
EBITDA Margin (%)	14.2%	15.0%	15.3%	15.5%
Other Income	236	271	350	430
Depreciation	3,216	3,762	3,856	4,206
EBIT	**6,061**	**7,526**	**8,654**	**9,735**
EBIT Margin (%)	9.3%	10.0%	10.6%	10.8%
Interest	235	257	240	280
PBT	**6,062**	**7,539**	**8,764**	**9,885**
PBT Margin (%)	9.3%	10.0%	10.7%	11.0%
Tax	1,886	2,380	2,824	3,303
PAT	**3,907**	**4,951**	**5,940**	**6,582**
PAT Margins (%)	6.0%	6.6%	7.3%	7.3%
Exceptional items	269	208	0	0
Adj PAT	**4,176**	**5,159**	**5,940**	**6,582**
Adj PAT Margins (%)	6.4%	6.9%	7.3%	7.3%

Key Ratios

YE Mar	FY 18	FY 19	FY 20E	FY 21E
Per Share Data (₹)				
Adj. EPS	29.7	36.7	42.2	46.8
CEPS	52.6	63.4	69.6	76.7
BVPS	154.5	182.3	218.2	258.0
DPS	0.5	2.1	0.5	3.0
Growth Ratios (%)				
Total revenues	16.9%	14.9%	8.8%	10.3%
EBITDA	22.3%	21.7%	10.8%	11.4%
PAT	18.3%	26.7%	20.0%	10.8%
EPS Growth	18.3%	26.7%	20.0%	10.8%
Valuation Ratios (X)				
PE	31.1	24.6	20.5	18.5
P/CEPS	16.5	13.6	12.4	11.3
P/BV	5.6	4.7	4.0	3.4
EV/Sales	1.8	1.6	1.5	1.3
EV/EBITDA	13.0	10.6	9.6	8.5
Operating Ratios (Days)				
Inventory days	46.9	45.3	44.0	43.0
Recievable Days	53.0	45.0	50.0	52.0
Payables day	61.8	57.0	55.0	52.0
Net Debt/Equity (x)	0.18	0.14	0.15	0.14
Profitability Ratios (%)				
ROCE	23.5%	25.1%	24.0%	23.1%
ROE	19.2%	20.1%	19.4%	18.1%
Dividend payout	10.1%	13.1%	15.0%	15.0%

Balance sheet

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
Equity and Liabilities				
Equity Share Capital	1,407	1,407	1,407	1,407
Reserves & Surplus	20,322	24,240	29,289	34,884
Total Networth	**21,729**	**25,647**	**30,696**	**36,291**
Total debt	3,803	3,464	4,464	4,964
Net Deferred Tax	17	161	161	161
Long term provisions	292	745	745	745
Current Liab & Prov				
Trade payables	11,284	11,734	12,308	12,834
Short term provisions	191	289	289	289
Other current liabilities	6,095	5,818	5,818	5,818
Total current liab and privs	17,570	17,841	18,415	18,941
Total Equity & Liabilities	**43,411**	**47,858**	**54,482**	**61,102**
Assets				
Net block	16,706	19,946	23,090	24,884
Capital WIP	544	1,062	1,412	1,762
Other non current assets	2,810	3,396	3,396	3,396
Total fixed assets	**21,911**	**26,204**	**29,698**	**31,842**
Cash and Bank	5,027	5,379	6,241	8,658
Inventories	4,938	5,400	5,728	6,144
Trade receivables	9,688	9,251	11,189	12,834
Loan, Advances & others	1,398	1,276	1,276	1,276
Other current assets	449	348	348	348
Total current Assets	**21,500**	**21,654**	**24,783**	**29,259**
Total Assets	**43,411**	**47,858**	**54,482**	**61,102**

Cash Flow

YE Mar (₹ mn)	FY 18	FY 19	FY 20E	FY 21E
PBT	5,793	7,331	8,764	9,885
Depreciation	3,216	3,762	3,856	4,206
Interest	215	233	240	280
Change in working capital	-19	305	-2,030	-1,872
Tax paid	-2,095	-2,337	-2,824	-3,303
Other operating activities	310	-310	0	0
Cash flow from operations (a)	**7,420**	**8,984**	**8,006**	**9,196**
Capital expenditure	-4,453	-7,138	-7,350	-6,350
Chng in investments	6	0	0	0
Other investing activities	13	24	24	24
Cash flow from investing (b)	**-4,352**	**-7,252**	**-6,965**	**-5,965**
Free cash flow (a+b)	**3,069**	**1,732**	**1,042**	**3,232**
Inc/dec in borrowings	396	-762	950	452
Dividend paid (incl. tax)	-423	-678	-891	-987
Interest paid	-208	-232	-240	-280
Cash flow from financing (c)	**2,833**	**60**	**861**	**2,416**
Net chng in cash (a+b+c)	**2,196**	**5,029**	**5,381**	**6,241**
Closing cash & cash equivalents	**5,029**	**5,381**	**6,241**	**8,658**

Source: Company, LKP Research

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