

# ENDURANCE TECHNOLOGIES | Auto and Auto Components

Increasing content and recovery in growth of 2Ws and 4Ws drives success

# LKP

## Strong Q3 led by both the geographies

Endurance's Q3 numbers were above our expectations as revenues zoomed up 24.4% yoy and 15.3% qoq in the consol business. On the domestic front, the topline jumped 31.7% yoy and 18.6% qoq as it was led by strong bounce back in the automobile industry post Covid. 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. Domestic margins were at 17% led by operating leverage, despite input costs firming up. The European business grew by 6.8% yoy, with margins coming up at 18%. Consol margins ranged at 17.3% while adjusted bottom-line grew by 62% yoy and 20.4% qoq, negating the impact of higher depreciation at ₹1bn. Exceptional item of ₹112.2 mn is related to a Voluntary Separation Scheme (VSS) announced by company in October, 2020, for all eligible permanent workmen at one of its plants located in Aurangabad. Including this, Reported PAT grew by 53.2% yoy and 13.7% qoq. 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.

## Increasing share of premium bikes augurs well for 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.

## Deeper penetration and broadening client base spices the equation

Increasing penetration along with broadening client base would also help Endurance Tech grow in medium to long term. Company has already entered into TVS Motors with annual revenue potential of ₹2bn (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 it expecting this to increase upto 55%, going forward, 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 Tech. 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 Tech. 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 good position to gain orders for supply of ABS for 200-cc bikes. 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.

YE Mar	FY 19	FY 20	FY 21E	FY 22E	FY 23E
Total Sales (Rs bn)	75.1	69.2	64.4	81.2	94.3
EBITDA Margins (%)	15.0%	16.3%	15.9%	16.4%	16.7%
PAT Margins (%)	6.9%	8.2%	7.8%	8.8%	9.4%
EPS (₹)	36.7	40.2	35.7	51.0	63.1
P/E (x)	39.6	34.7	39.0	27.4	22.1
PEG	1.5	2.4	-3.5	0.6	0.9
P/BV (x)	7.7	6.5	5.8	5.1	4.4
EV/EBITDA (x)	17.2	17.2	18.7	14.2	11.8
ROE (%)	20.1%	18.8%	14.9%	18.5%	19.7%
ROCE (%)	25.1%	20.4%	16.4%	20.5%	21.9%

Rating	Buy
Current Market Price (₹)	1,395
12 M Price Target (₹)	1,577
Potential upside (%)	13

## Stock Data

FV (₹)	10
Market Cap Full (₹ bn)	198
Market Cap Free Float (₹ bn)	49
52-Week High / Low (₹)	1,510 / 565
2-Year High / Low (₹)	1,510 / 565
1 Year Avg. Dly Traded Volume (in lakh)	2
BSE Code / NSE Symbol	ENDURANCE / 540153
Bloomberg Code	ENDU IN

## Shareholding Pattern (%)

	Dec-20	Sep-20	Jun-20	Mar-20
Promoter	75.00	75.00	75.00	75.00
FPIs	10.61	11.59	11.80	16.34
MFs	9.34	9.13	8.42	5.70
Insurance	3.31	2.77	3.18	1.66
Others	1.74	1.51	1.60	1.30

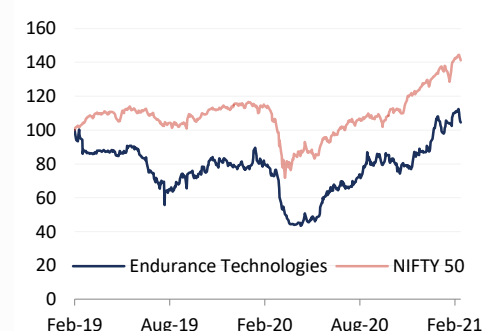
Source: BSE

## Price Performance (%)

(%)	1M	3M	6M	1YR
Endurance	6%	34%	33%	32%
Nifty 50	3%	17%	31%	24%

\* To date / current date : February 19, 2021

## Endurance vs Nifty 50



Endurance Tech. is planning to ramp up share of PVs in the domestic revenues (70% of overall revenues) driven by domestic demand and exports. 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. Company is also in talks with M&M and Maruti for supplying Aluminium casting products. Given the high entry barriers in Aluminium castings, Endurance Tech. has huge scope for winning business in PV castings segment. Company is also exploring new opportunities for exporting the Aluminium castings; Endurance Tech. 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 despite macro concerns:

Though the PV industry in Europe is expected to stagnate over next couple of years and ongoing second spike of pandemic, Endurance Tech.'s European business (~30% 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 foundries & 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.) over last two years which would be ramped in FY22 and FY23. (FY20 revenues were around Euro225 mn (excluding tooling)).

#### Consolidated Quarterly Financial Snapshot

All fig in ₹ mn	Q3 FY21	Q2 FY21	% qoq	Q3FY20	% yoy
Net Sales	20,408	17,701	15.3%	16,405	24.4%
Raw Material Costs	11,031	9,563	15.4%	8,765	25.9%
Employee Costs	1,825	1,681	8.6%	1,694	7.7%
Other Expenses	4,030	3,325	21.2%	3,341	20.6%
EBITDA	3,521	3,132	12.4%	2,605	35.2%
EBITDA Margins %	17.3%	17.7%	(40 bps)	15.9%	140 bps
Other Income	58	71	-18.3%	119	-50.9%
Depreciation	1,044	973	7.3%	999	4.5%
Interest Expenses	42	35	21.2%	43	-1.9%
PBT	2,493	2,195	13.6%	1,682	48.2%
Tax	480	523	-8.2%	441	8.8%
Adj. PAT	2,013	1,672	20.4%	1,241	62.2%
Adj EPS	14.31	11.89	20.4%	8.82	62.2%
Exceptional Items	112	-	N/A	-	N/A
Reported PAT	1,901	1,672	13.7%	1,241	53.2%

Source: Company, LKP Research

#### Outlook and Valuation

The company reported very strong numbers in Q3 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 higher 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 is an attractive investment case. We maintain our BUY rating on the stock with increased target price of ₹1,577 valued at 25x FY23E earnings.

## Consolidated Financials

Income Statement					
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
<b>Total Revenues</b>	<b>75,104</b>	<b>69,177</b>	<b>64,415</b>	<b>81,213</b>	<b>94,312</b>
Raw Material Cost	43,494	37,352	35,022	44,580	51,144
Employee Cost	6,527	6,773	6,460	7,656	8,966
Other Exp	13,795	13,744	12,685	15,641	18,405
<b>EBITDA</b>	<b>11,288</b>	<b>11,308</b>	<b>10,247</b>	<b>13,336</b>	<b>15,796</b>
<i>EBITDA Margin(%)</i>	<i>15.0%</i>	<i>16.3%</i>	<i>15.9%</i>	<i>16.4%</i>	<i>16.7%</i>
Other Income	271	476	310	400	460
Depreciation	3,762	4,142	3,792	4,142	4,492
<b>EBIT</b>	<b>7,526</b>	<b>7,166</b>	<b>6,455</b>	<b>9,194</b>	<b>11,304</b>
<i>EBIT Margin(%)</i>	<i>10.0%</i>	<i>10.4%</i>	<i>10.0%</i>	<i>11.3%</i>	<i>12.0%</i>
Interest	257	175	170	190	130
<b>PBT</b>	<b>7,539</b>	<b>7,467</b>	<b>6,595</b>	<b>9,404</b>	<b>11,634</b>
<i>PBT Margin(%)</i>	<i>10.0%</i>	<i>10.8%</i>	<i>10.2%</i>	<i>11.6%</i>	<i>12.3%</i>
Tax	2,380	1,810	1,568	2,236	2,762
<b>PAT</b>	<b>4,951</b>	<b>5,657</b>	<b>5,027</b>	<b>7,168</b>	<b>8,873</b>
<i>PAT Margins (%)</i>	<i>6.6%</i>	<i>8.2%</i>	<i>7.8%</i>	<i>8.8%</i>	<i>9.4%</i>
Exceptional items	208	0	0	0	0
<b>Adj PAT</b>	<b>5,159</b>	<b>5,657</b>	<b>5,027</b>	<b>7,168</b>	<b>8,873</b>
<i>Adj PAT Margins (%)</i>	<i>6.9%</i>	<i>8.2%</i>	<i>7.8%</i>	<i>8.8%</i>	<i>9.4%</i>

Key Ratios					
YE Mar	FY 19	FY 20	FY 21E	FY 22E	FY 23E
<b>Per Share Data (₹)</b>					
Adj. EPS	36.7	40.2	35.7	51.0	63.1
CEPS	63.4	69.7	62.7	80.4	95.0
BVPS	182.3	213.7	240.5	276.2	320.3
DPS	2.1	0.5	3.0	4.8	13.3
<b>Growth Ratios(%)</b>					
Total revenues	14.9%	-7.9%	-6.9%	26.1%	16.1%
EBITDA	21.7%	0.2%	-9.4%	30.1%	18.5%
PAT	26.7%	14.3%	-11.1%	42.6%	23.8%
EPS Growth	26.7%	14.3%	-11.1%	42.6%	23.8%
<b>Valuation Ratios (X)</b>					
PE	39.6	34.7	39.0	27.4	22.1
P/CEPS	22.0	20.0	22.2	17.3	14.7
P/BV	7.7	6.5	5.8	5.1	4.4
EV/Sales	2.6	2.8	3.0	2.3	2.0
EV/EBITDA	17.2	17.2	18.7	14.2	11.8
<b>Operating Ratios (Days)</b>					
Inventory days	45.3	53.8	56.0	54.0	52.0
Receivable Days	45.0	35.5	38.0	40.0	41.0
Payables day	57.0	56.3	55.0	54.0	53.0
Net Debt/Equity (x)	0.14	0.13	0.13	0.13	0.12
<b>Profitability Ratios (%)</b>					
ROCE	25.1%	20.4%	16.4%	20.5%	21.9%
ROE	20.1%	18.8%	14.9%	18.5%	19.7%
Dividend payout	13.1%	33.0%	25.0%	30.0%	30.0%

Balance Sheet					
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
<b>Equity and Liabilities</b>					
Equity Share Capital	1,407	1,407	1,407	1,407	1,407
Reserves & Surplus	24,240	28,654	32,424	37,442	43,653
<b>Total Networth</b>	<b>25,647</b>	<b>30,061</b>	<b>33,831</b>	<b>38,849</b>	<b>45,060</b>
Total debt	3,464	4,020	4,520	5,020	5,520
Net Deferred Tax	161	79	79	79	79
Long term provisions	745	895	895	895	895
<b>Current Liab &amp; Prov</b>					
Trade payables	11,734	10,661	9,706	12,015	13,695
Short term provisions	289	335	335	335	335
Other current liabilities	5,818	4,649	4,649	4,649	4,649
Total current liab and privs	17,841	15,645	14,690	16,999	18,679
<b>Total Equity &amp; Liabilities</b>	<b>47,858</b>	<b>50,699</b>	<b>54,015</b>	<b>61,842</b>	<b>70,232</b>
<b>Assets</b>					
Net block	19,946	24,104	23,312	24,170	25,678
Capital WIP	1,062	1,065	2,465	3,465	4,465
Other non current assets	3,396	1,900	1,900	1,900	1,900
<b>Total fixed assets</b>	<b>26,204</b>	<b>29,222</b>	<b>29,830</b>	<b>31,688</b>	<b>34,196</b>
Cash and Bank	5,379	6,209	9,065	11,617	15,115
Inventories	5,400	5,501	5,373	6,595	7,286
Trade receivables	9,251	6,727	6,706	8,900	10,594
Loan, Advances & others	1,276	1,393	1,393	1,393	1,394
Other current assets	348	1,648	1,648	1,648	1,648
<b>Total current Assets</b>	<b>21,654</b>	<b>21,478</b>	<b>24,185</b>	<b>30,154</b>	<b>36,037</b>
<b>Total Assets</b>	<b>47,858</b>	<b>50,699</b>	<b>54,015</b>	<b>61,842</b>	<b>70,232</b>

Cash Flow					
YE Mar (₹ mn)	FY 19	FY 20	FY 21E	FY 22E	FY 23E
<b>PBT</b>	<b>7,331</b>	<b>7,466</b>	<b>6,595</b>	<b>9,404</b>	<b>11,634</b>
Depreciation	3,762	4,142	3,792	4,142	4,492
Interest	233	169	170	190	130
Chng in working capital	305	529	-806	-1,107	-705
Tax paid	-2,337	-2,256	-1,568	-2,236	-2,762
Other operating activities	-311	63	0	0	0
<b>Cash flow from operations (a)</b>	<b>8,983</b>	<b>10,113</b>	<b>8,183</b>	<b>10,393</b>	<b>12,790</b>
Capital expenditure	-7,138	-5,825	-4,400	-6,000	-7,000
Chng in investments	0	0	0	0	0
Other investing activities	15	5	0	0	0
<b>Cash flow from investing (b)</b>	<b>-7,250</b>	<b>-6,711</b>	<b>-4,400</b>	<b>-6,000</b>	<b>-7,000</b>
<b>Free cash flow (a+b)</b>	<b>1,733</b>	<b>3,402</b>	<b>3,783</b>	<b>4,393</b>	<b>5,790</b>
Inc/dec in borrowings	-762	-543	500	500	500
Dividend paid (incl. tax)	-678	-1,865	-1,257	-2,150	-2,662
Interest paid	-232	-168	-170	-190	-130
<b>Cash flow from financing (c)</b>	<b>61</b>	<b>826</b>	<b>2,856</b>	<b>2,552</b>	<b>3,498</b>
<b>Net chng in cash (a+b+c)</b>	<b>5,029</b>	<b>5,382</b>	<b>6,208</b>	<b>9,065</b>	<b>11,617</b>
<b>Closing cash &amp; cash equivalents</b>	<b>5,382</b>	<b>6,208</b>	<b>9,065</b>	<b>11,617</b>	<b>15,115</b>

Source: Company, LKP Research

## DISCLAIMERS AND DISCLOSURES

LKP Sec. Ltd. (CIN-L67120MH1994PLC080039, www.lkpsec.com) and its affiliates are a full-fledged, brokerage and financing group. LKP was established in 1992 and is one of India's leading brokerage and distribution house. LKP is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX). LKP along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, insurance broking and services rendered in connection with distribution of primary market issues and financial products like mutual funds etc.

LKP hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on LKP for certain operational deviations in ordinary/routine course of business. LKP has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

LKP offers research services to clients. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by LKP and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

Research Analyst or his/her relative's financial interest in the subject company. (NO)

LKP or its associates may have financial interest in the subject company.

LKP or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (LKP) has not been engaged in market making activity for the subject company.

LKP or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (NO)

LKP or its associates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

LKP or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report.

Subject Company may have been client of LKP or its associates during twelve months preceding the date of distribution of the research report and LKP may have co-managed public offering of securities for the subject company in the past twelve months.

Research Analyst has served as officer, director or employee of the subject company: (NO)

LKP and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein.

In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LKP or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person.

Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

All trademarks, service marks and logos used in this report are trademarks or registered trademarks of LKP or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LKP. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LKP.