

**ENDURANCE TECHNOLOGIES LIMITED** | Auto Components**LKP**

All set to take a big leap with new order wins and products

Endurance Technologies (Endurance) reported consolidated revenues of ₹21.1 bn, up 1.7% qoq and 25% yoy based on good order delivery in the quarter. EBITDA margins came a bit low at 10.8% in domestic business while growing at 13.2% margins in the European business. The EBITDA miss at the domestic level was due to higher than expected RM cost to sales ratio (67.7% v/s 66.7% qoq in the standalone operations). Also there was a considerable rise in the energy costs which led to higher other expenses. On the employee costs side, the company spent on salary hikes and CSR activity. In the India business, revenues grew by 40% yoy and 4% qoq to ₹16.6 bn. Adj. PAT grew 3.3% yoy to ₹911 mn.

As far as the EU business is concerned, revenues dipped 8% yoy to ₹4.9bn in Q1 FY23 as they were adversely impacted by the semiconductor shortage. EBITDA margin expanded 270 bps yoy to 13.2%. Adjusted PAT grew by 5.2% to ₹226 mn in the quarter.

**Healthy order book remains the key**

Endurance has won several orders during the quarter and has also received RFQs worth ₹16.32 bn with various OEMs in India. New order wins include (1) ₹4.84 bn worth of orders from EV OEMs for braking and suspension business, (2) ₹440 mn from OEMs excluding Bajaj Auto, which mainly consist orders from HMSI, HMCL, Aether Energy, Hero Electric and Tata Motors. (3) ₹1.4 bn and ₹1.25 bn worth of orders from TVS Motors for alloy wheels and brake assembly respectively (4) Bajaj EV business win worth ₹1.24 bn (5) Front fork order from Suzuki worth ₹1.4 bn (100% SOB). (6). New order wins for its new product segment – Drive Shafts.

The company will focus on developing value added products, which include brake and clutch assembly for 200cc+ motorcycles along with ABS, paper based clutches, inverted front forks and fully machined & semi-finished castings. The company commenced ABS supplies to Bajaj Auto & Royal Enfield and expects to reach its peak annual capacity of 400K units by September 2022 (currently production is impacted by chip shortage). The company is in advanced talks with HMCL for Continuous Variable Transmission (CVT) and expects to start supply from 4QFY23 onwards. The company is also looking to supply suspension and braking solutions for e-bicycle business. Endurance has entered a new business of manufacturing Crankshafts at their Waluj plant for OEMs such as M&M, TVS and Bajaj Auto. Such a strong portfolio of orders and products will surely ensure strong growth for the company in ensuing years.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales (₹ bn)	65.5	75.5	91.2	103.5
EBITDA margins (%)	15.9%	12.8%	13.6%	14.8%
PAT margins (%)	7.9%	6.1%	7.1%	7.9%
EPS (₹)	37.0	35.0	46.1	58.4
P/E (x)	37.5	43.2	30.7	24.2
PEG (x)	-6.1	-5.9	1.0	0.9
P/BV (x)	5.6	5.1	4.5	3.9
EV/EBITDA (x)	19.0	20.4	15.7	12.6
ROE (%)	14.6%	11.8%	14.6%	16.1%
ROCE (%)	15.9%	13.9%	17.0%	18.9%

Rating	BUY
Current Market Price (₹)	1,415
12 M Price Target (₹)	1,637
Potential upside (%)	16

**Stock Data**

FV (₹) :	10
Total Market Cap (₹ bn) :	200
Free Float Market Cap (₹ bn) :	50
52-Week High / Low (₹) :	1,989 / 1,047
2-Year High / Low (₹) :	1,989 / 931
1 Yr Avg. Dly Traded Volume (in lakh)	1.32
BSE Code / NSE Symbol	ENDURANCE / 540153
Bloomberg :	ENDU IN

**Shareholding Pattern**

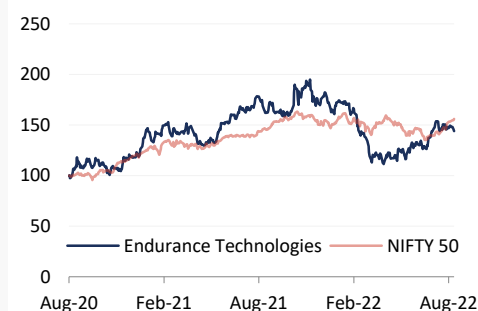
(%)	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	75.00	75.00	75.00	75.00
FPIs	6.43	7.22	7.82	8.03
MFs	9.53	8.25	8.23	8.56
Insurance	7.14	7.62	6.94	6.34
Others	1.90	1.91	2.01	2.07

Source: BSE

**Price Performance**

(%)	1M	3M	6M	1YR
Endurance	-6.0%	24.0%	-0.6%	-17.1%
Nifty 50	8.9%	9.2%	1.6%	8.5%

\* To date / current date : August 11 2022

**Endurance vs Nifty 50**

On the EV side of the business, the EV order book of ₹4.84 bn from Hero Electric, Aether, Mahindra Electric etc till Q1 FY23 now contributes about ~20% of the total order book and shall contribute to the financials going forward. This business is expected to peak in FY24. Endurance has won order worth ₹300K per annum from Aether Energy for front alloy wheels, which is expected to start from October 22.

### Margins to grow from H2

We witnessed margin dip in Q1 as multiple factors pushed the margins down. Main factor among them was increase in steel and aluminium prices. However, now with these input costs softening for good, management expects margins to witness a surge from H2 with a lag effect. Superior product mix and a better pricing scenario, new business wins, backward integration of hoses shall enable better margin performance.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Net sales	21,138	20,788	1.7%	16,937	24.8%
Raw material costs	12,775	12,554	1.8%	9,107	40.3%
Employee costs	1,870	1,684	11.1%	1,942	-3.7%
Other expenses	4,096	3,979	2.9%	3,444	18.9%
EBITDA	2,397	2,571	-6.7%	2,444	-1.9%
EBITDA margins (%)	11.3%	12.4%	(110 bps)	14.4%	(310 bps)
Other income	47	127	-62.9%	127	-63.0%
Depreciation	992	981	1.1%	983	0.9%
Interest expenses	19	17	12.9%	15	31.5%
PBT	1,434	1,700	-15.6%	1,573	-8.9%
Tax	297	338	-12.2%	293	1.4%
Adj. PAT	1,137	1,361	-16.5%	1,280	-11.2%
Adj EPS	8.08	9.68	-16.5%	9.10	-11.2%
Exceptional items	103	-	-	315	-
Reported PAT	1,034	1,361	-24.1%	966	7.0%

Source: Company, LKP Research

### Other key conference call highlights

1. New capacities: Alloy wheel capacities expansion in Chakan from 240k/month to 320k/month; the plant started operations in May-22 and has started supplies from Jun-22
2. ABS supply is now 25K per month and is expected to expand up to 33K per month by September.
3. Aftermarket segment revenues increased by 53% yoy to ₹963 mn in Q1 FY23. Export revenues stood at ₹404 mn in Q1 FY23. Exports were impacted by weakness in Sri Lanka, Bangladesh and Egypt.
4. In Europe, increase in business from big OEMs led to margin improvement despite high energy costs.
5. In the quarter, India:Europe revenue mix stood at 76:24
6. Endurance acquired Italian company Ferro Technica which is into 2W brake applications.
7. Endurance won orders from KTM for ABS, inverted front forks and shock absorbers in Q1.
8. Endurance is in the process of expanding capacities for front forks from 285K to 570K per annum and for disc brakes from 375K to 675K units per annum.
9. Alloy wheel capacities are in process to expand from 240K to 380K.
10. SOB with TVS is about 36% for shock absorbers, while the company is in process to capacities of shock absorbers for TVS.
11. SOB for Bajaj Auto has gone down as its 2W sales have increased by just 1.5% in the quarter, while the same for HMSI has gone up.
12. Brake assembly market share has gone up to 31% from 30% qoq.

### Outlook and Valuation

The quarterly numbers of Endurance were slightly subdued due to chip shortage and higher RM costs, but we believe the company will continue to outperform the industry led by (1) Improvement in 2W demand in FY23 (after two dismal years), led by strong underlying trends for scooterization and premiumization (2) addition of new and value added products (ABS supply ramp-up over FY23, driveshafts for Bajaj including LCVs and 3Ws, entry into crankshaft business, non-automotive castings etc.), (3) ramp-up in EV products (EV order book of ~₹4.8bn incl. Maxwell) and (5) increasing share of after markets and exports(though temporarily subdued). Furthermore, as chip supply eases in the due course of year, ABS supplies should ramp-up leading to higher revenues for the company. In India, rising order book should take care of the pressure seen in the EU operations including chip shortage, higher power costs and other supply chain issues. Higher operating leverage stemming from higher demand from 2Ws should lead to better margin performance also driven by falling input costs. The strength in Endurance's business franchisee and experienced management should help the stock to continue commanding premium valuation multiples in comparison to most domestic auto ancillary companies. In the latter, there are only a handful of high-quality, large-scale, multi-product auto component suppliers. Considering Endurance's size and strong market share in its operating segments, the stock should command a premium to its domestic peers. Maintain our previous estimates and BUY rating with a target price of ₹1,637.

## Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Total Revenues</b>	<b>65,470</b>	<b>75,491</b>	<b>91,195</b>	<b>1,03,502</b>
Raw Material Cost	35,705	44,201	52,818	58,839
Employee Cost	6,760	6,944	8,145	9,228
Other Exp	12,601	14,700	17,805	20,130
<b>EBITDA</b>	<b>10,404</b>	<b>9,646</b>	<b>12,427</b>	<b>15,305</b>
<i>EBITDA Margin(%)</i>	<i>15.9%</i>	<i>12.8%</i>	<i>13.6%</i>	<i>14.8%</i>
Other Income	307	410	500	580
<b>Depreciation</b>	<b>3,991</b>	<b>3,817</b>	<b>4,256</b>	<b>4,878</b>
<i>EBIT</i>	<i>6,413</i>	<i>5,829</i>	<i>8,171</i>	<i>10,427</i>
<i>EBIT Margin(%)</i>	<i>9.8%</i>	<i>7.7%</i>	<i>9.0%</i>	<i>10.1%</i>
Interest	138	64	100	130
<b>PBT</b>	<b>6,582</b>	<b>6,176</b>	<b>8,571</b>	<b>10,877</b>
<i>PBT Margin(%)</i>	<i>10.1%</i>	<i>8.2%</i>	<i>9.4%</i>	<i>10.5%</i>
Tax	1,272	1,254	2,089	2,656
<b>PAT</b>	<b>5,310</b>	<b>4,922</b>	<b>6,482</b>	<b>8,221</b>
<i>PAT Margins (%)</i>	<i>8.1%</i>	<i>6.5%</i>	<i>7.1%</i>	<i>7.9%</i>
Exceptional items	112	315	0	0
<b>Adj PAT</b>	<b>5,198</b>	<b>4,607</b>	<b>6,482</b>	<b>8,221</b>
<i>Adj PAT Margins (%)</i>	<i>7.9%</i>	<i>6.1%</i>	<i>7.1%</i>	<i>7.9%</i>

## Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
<b>Per Share Data (Rs)</b>				
Adj. EPS	37.0	35.0	46.1	58.4
CEPS	65.3	59.9	76.3	93.1
BVPS	253.2	278.7	315.6	362.3
DPS	0.0	6.0	9.2	11.7
<b>Growth Ratios(%)</b>				
Total revenues	-5.4%	15.3%	20.8%	13.5%
EBITDA	-8.0%	-7.3%	28.8%	23.2%
PAT	-6.1%	-7.3%	31.7%	26.8%
EPS Growth	-6.1%	-7.3%	31.7%	26.8%
<b>Valuation Ratios (X)</b>				
PE	37.5	43.2	30.7	24.2
P/CEPS	21.7	23.6	18.5	15.2
P/BV	5.6	5.1	4.5	3.9
EV/Sales	3.0	2.6	2.1	1.9
EV/EBITDA	19.0	20.4	15.7	12.6
<b>Operating Ratios (Days)</b>				
Inventory days	62.5	57.9	52.0	50.0
Receivable Days	58.0	46.9	41.0	39.0
Payables day	71.3	60.0	56.0	53.0
Net Debt/Equity (x)	0.10	0.05	0.07	0.07
<b>Profitability Ratios (%)</b>				
ROCE	15.9%	13.9%	17.0%	18.9%
ROE	14.6%	11.8%	14.6%	16.1%
Dividend payout	0.0%	18.3%	20.0%	20.0%

## Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Equity and Liabilities</b>				
Equity Share Capital	1,407	1,407	1,407	1,407
Reserves & Surplus	34,214	37,793	42,979	49,556
<b>Total Network</b>	<b>35,621</b>	<b>39,200</b>	<b>44,385</b>	<b>50,962</b>
Total debt	3,549	1,939	2,939	3,439
Net Deferred Tax	5	6	6	6
Long term provisions	1,065	859	859	859
<b>Current Liab &amp; Prov</b>				
Trade payables	12,782	12,413	13,992	15,029
Short term provisions	543	640	640	640
Other current liabilities	3,906	3,518	3,518	3,518
Total current liab and privs	17,231	16,571	18,149	19,187
<b>Total Equity &amp; Liabilities</b>	<b>57,471</b>	<b>58,575</b>	<b>66,339</b>	<b>74,453</b>
<b>Assets</b>				
Net block	23,509	24,558	28,302	31,423
Capital WIP	930	1,191	1,441	1,741
Other non current assets	1,446	1,743	1,743	1,743
<b>Total fixed assets</b>	<b>28,433</b>	<b>30,083</b>	<b>34,077</b>	<b>37,498</b>
Cash and Bank	5,133	4,026	6,743	10,085
Inventories	6,118	7,011	7,525	8,060
Trade receivables	10,410	9,703	10,244	11,059
Loan, Advances & others	2,947	2,895	2,895	2,895
Other current assets	4,431	4,856	4,856	4,856
<b>Total current Assets</b>	<b>29,039</b>	<b>28,491</b>	<b>32,262</b>	<b>36,955</b>
<b>Total Assets</b>	<b>57,472</b>	<b>58,574</b>	<b>66,339</b>	<b>74,453</b>

## Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	6,468	5,861	8,571	10,877
Depreciation	3,991	3,817	4,256	4,878
Interest	132	57	100	130
Chng in working capital	-2,697	-397	524	-313
Tax paid	-1,738	-1,600	-2,089	-2,656
Other operating activities	58	-323	52	0
<b>Cash flow from operations (a)</b>	<b>6,215</b>	<b>7,415</b>	<b>11,415</b>	<b>12,916</b>
Capital expenditure	-3,750	-5,290	-8,250	-8,300
Chng in investments	0	0	0	0
Other investing activities	27	4	0	0
<b>Cash flow from investing (b)</b>	<b>-5,906</b>	<b>-5,513</b>	<b>-8,250</b>	<b>-8,300</b>
<b>Free cash flow (a+b)</b>	<b>309</b>	<b>1,902</b>	<b>3,165</b>	<b>4,616</b>
Inc/dec in borrowings	-920	-1,837	1,000	500
Dividend paid (incl. tax)	0	-844	-1,296	-1,644
Interest paid	-134	-67	-100	-130
<b>Cash flow from financing (c)</b>	<b>-1,121</b>	<b>-1,117</b>	<b>2,769</b>	<b>3,342</b>
<b>Net chng in cash (a+b+c)</b>	<b>6,212</b>	<b>5,091</b>	<b>3,974</b>	<b>6,743</b>
<b>Closing cash &amp; cash equivalents</b>	<b>5,091</b>	<b>3,974</b>	<b>6,743</b>	<b>10,085</b>

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