

11th February 2022

CMP – ₹1,466/-

View – ACCUMULATE

Q3FY22 Result Highlights

- **Slow European car demand recovery, higher power and aluminium costs impacted Q3FY22** – Endurance Q3FY22 consolidated revenues declined 7.4%YoY (+0.1%QoQ) to ₹18.8bn with standalone Revenue/EBITDA at ₹14.9bn/₹1.7bn (~-3% YoY/-36.3% YoY) led by double-digit decline in production volumes of the 2W segment due to weak rural demand and increase in cost of ownership, partly offset by higher realisations due to RM inflation (+220 bps QoQ) and ramp-up of new orders in disc brake, ABS and alloy wheel segments. EU subsidiaries reported revenues of €47.6 mn (-19.5% YoY), mainly impacted by 20% YoY decline over Oct-Dec'21 in car registrations in major markets like Germany (ranging between 27% and 35%), France (3% to 31%), Italy (25% to 36%) and Spain (12% to 21%). The decline was due to lower production resulting from semiconductor chip shortages. Going forward, the European Automobile Manufacturers Association (ACEA) estimates a 7.9%YoY increase in car registrations in 2022 on improving chip supplies. Though this is positive, the 2022 full-year forecast would still be 20% below 2019 levels. Gross margins were impacted in Q3FY22 due to higher aluminium alloy and steel prices, higher energy costs in Europe and an adverse product mix. Aluminium costs were higher 5.8% YoY. While gas prices in Europe were up 5x YoY on the delay in the start of operations of the already completed Nord Stream-2 pipeline between Russia and Germany, as well as the shutting of many nuclear plants across Germany and France. The ABS ECU chip shortage led to an adverse product mix. Management expects chip shortages to ease from Mar'21, and is hopeful of aluminum prices peaking. While energy costs have cooled off in the ongoing Q4FY22, it remains volatile. The impact from higher power cost in Q3FY22 was ₹2.8mn or equivalent to 55% of EBITDA. Had it not been for the higher power and metal costs, the EBITDA margins for the Europe business would have been 17.8% instead of 11% (~5.9% due to higher power costs and 0.6% due to higher aluminium costs). The raw material costs are a pass through to the OEMs except for Honda Motorcycles (HMSI), which accepts the increase with a lag of one quarter.
- **Order book continues to remain strong in both Indian and EU operations** – In India, for 9MFY22, the company won new business orders worth ₹5,854mn from OEMs other than Bajaj: HMSI, TVS Motor, Hero MotoCorp, Royal Enfield and Ather Energy. These orders include ₹1,390mn towards EVs, especially ₹530m from Ather for brakes and ₹700mn from Polarity Smart Bikes for brakes and suspensions. The new order wins include ₹1,000mn for non-auto castings like gensets and 5G for telecom, which should begin execution by Apr 2022. The request for quotes (RFQ) from OEMs stand at ₹18,936mn. In Europe, it won orders worth €53.9mn from Porsche, Daimler, CNH Industrial, BMW and Stellantis. This includes a recently won €40.5mn order from Stellantis for transmission housing for mild and full hybrid cars, which would commence from 2HFY23.
- **Focus on developing value-add products** – The company will focus on developing value-add products, which includes brake and clutch assembly for +200cc motorcycles, ABS, paper-based clutches, inverted front forks and fully machined & semi-finished castings. The ABS business has been impacted by the shortage of semiconductor chips used in the ECU unit. It aims to increase the business in the +150cc category and has started

Important Statistics

MCAP (₹ bn)	206.2
52 Week H/L (₹)	1981/1250
NSE Code	ENDURANCE
BSE Code	542216

Shareholding pattern	Dec'21 (%)
Promoter	75.0
DII	15.7
FII	7.8
Public & Others	1.5

Financials

	(₹ mn)			
Particulars	FY19	FY20	FY21	9MFY22
Revenues	75,105	69,177	65,470	54,703
EBITDA	11,288	11,308	10,402	7,015
EBITDA Margin (%)	15.0	16.3	15.9	12.3
Net Profit	5,158	5,655	5,196	3,245
EPS (₹)	35.2	40.2	36.9	23.1
DPS (₹)	6.25	4.0	4.0	
RoE (%)	19.3	18.8	14.6	
RoCE (%)	20.1	19.5	17.0	
P/E (x)	41.7	36.5	39.7	
EV/EBITDA (x)	18.5	18.4	19.8	
P/BV (x)	8.1	6.9	5.8	

Source: Company Filing, Way2wealth Research

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supplying Bajaj Auto from Sep'21. Endurance's target for ABS is to reach 400,000 assemblies p.a. by Sep'22. It started supplying ABSs to Royal Enfield in Feb'22. The disc brake business is growing with the addition of new business from Bajaj Auto, TVS Motor, Royal Enfield, Yamaha, Hero MotoCorp, and HMSI. The capacity is being increased from 285,000 to 570,000 units per month. The disc capacity is being increased from 375,000 to 675,000 units per month and should be done by Mar'22. Due to the increase in orders from Bajaj and Yamaha India, and a new ₹1,446mn alloy wheel order from TVS, the company has added a new plant at Chakan to help increase alloy wheels supplies from 240,000 to 320,000 per month. It will start operations in Feb'22. Supplies to TVS will start in Jun'22. Endurance has entered two backward integration areas, which are import substitutes. Aluminium forging for inverted front forks for which supplies will start at the Aurangabad plant from Feb'22 and wire hoses for ABS applications in mid- and high-end bikes for which supplies started from the Aurangabad plant in Jun'21. In Sep'21 it supplied aluminium cylinder head low pressure die casting at the Panthnagar plant, for which the order is for 720,000 units p.a. It exports to 30 countries and plans to add four more in Q1FY23. Exports sales from the India standalone business for 9MFY22 was ₹1,426mn vs ₹1,162mn YoY. It also started its 2W and 3W tyre trading business for both India and exports.

- **Foray into new product segment with launch of drive shaft** – The company will set up a new product vertical with the launch of drive shafts. Drive shafts are used to transfer torque from engine/motors into wheels. This product is engine agnostic and will cater to 3W, PV and LCV segments. The current market size for drive shaft in India is around ₹20bn. The company has won orders from Bajaj Auto 3W division and is in advanced talks with TVS Motor 3W division and M&M 3W and PV divisions. The company will commence supplies from May'22 onwards and expects to reach peak revenue potential of ₹2bn by FY25. Key competitors for this product are GKN Automotive and Nexteer. The company has developed drive shaft in-house and has applied for five patents. The company aspires to have very high market share for this product in the 3W segment
- **Targets to reach 10% of the total revenues in the automotive aftermarket division** – The company acquired 100% stake in Veicoli SrI, Italy. Veicoli enables fleet operators to increase route efficiency, enhance safety, optimize maintenance activity and reduce fuel costs. These benefits are derived by monitoring vehicle movement, engine parameters and driving habits on Veicoli's software platform. Through this acquisition, the company seeks to expand their innovative solutions offerings in the mobility sector in Europe. The company expects RM headwinds to ease off over the coming quarters with decline in steel prices. However, aluminum continues to remain at elevated levels. The company has the target to reach 10% of the total revenues in the automotive aftermarket division. Aftermarket sales revenue for 9MFY22 stood at ₹2,874mn v/s ₹1,917mn YoY.
- **Maharashtra mega incentive update** – The company recorded zero incentives in Q3FY22 and ₹239mn in Q3FY21. It expects incentives from the existing 2013 scheme to be at similar levels for the next two years and to reduce slightly in the third year. Another incentive from the 2019 scheme will become available to the company as it is about to complete scheme terms that require an investment of ₹3,500mn.

View

The management indicated that the semiconductor shortage is leading to a slow ramp-up in anti-lock braking systems (ABS) supplies to Bajaj Auto, which started only in Sep'21. It has launched a new product, drive shafts for 3Ws and small trucks, where it has patents and has won new orders. This offers an opportunity in vehicle power transmission components. It is evaluating the e-bicycle opportunity for its suspension and brakes. The management indicated that order wins from electric vehicle (EV) makers accelerated to ₹1.39bn in YTD FY22 to form 20% of new order wins for the period as it recently won a new hybrid car transmission order from Stellantis worth €40mn. Thus, expansion into high entry barrier technology products like ABS and drive shafts will help Endurance improve content per vehicle from its big customer profile. Thus we expect the company to continue to outperform the domestic automotive industry led by market share gains in disc brakes, alloy wheels and ABS product segments and foray into new product segments. However, we expect domestic 2W industry volumes to gradually recover owing to weak demand scenario amid rising cost of ownership. Hence, **we continue to view it as an ACCUMULATE stock trading at P/E 23x FY24E EPS of ₹63.7.**

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Financial Performance

(₹ mn)

Particulars	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	9MFY22	9MFY21	YoY (%)
Revenue	18,891.2	20,408.6	(7.4)	18,875.5	0.1	54,703.4	44,141.2	23.9
Matl Cost	11,431.9	11,084.2	3.1	11,116.5	2.8	31,978.7	23,047.4	38.8
Purchases	238.0	313.4	(24.1)	97.2	144.7	664.3	652.4	1.8
Stock Changes	(187.6)	(366.2)	(48.8)	(155.5)	20.6	(995.0)	(216.1)	360.5
Employee Exps	1,669.3	1,825.2	(8.5)	1,648.3	1.3	5,259.9	4,826.2	9.0
Other Exps	3,707.5	4,030.7	(8.0)	3,569.2	3.9	10,720.5	8,751.0	22.5
EBITDA	2,032.1	3,521.3	(42.3)	2,599.9	(21.8)	7,075.0	7,080.4	(0.1)
EBITDA Margin (%)	10.8	17.3	(650)	13.8	(302)	12.9	16.0	(311)
Other Income	74.7	58.4	27.9	82.0	(8.9)	283.6	238.4	18.9
Depreciation	913.5	1,044.5	(12.5)	939.9	(2.8)	2,836.1	2,873.2	(1.3)
Finance Cost	14.0	42.4	(67.1)	18.0	(22.3)	46.6	119.0	(60.9)
PBT	1,179.3	2,492.7	52.7	1,724.0	(31.6)	4,476.0	4,326.6	3.5
Tax	232.9	480.0	51.5	390.7	(40.4)	916.3	891.6	2.8
Exceptional Item	-	112.3	(100.0)	-	NM	314.5	112.3	180.2
Minority Interest -Profit/(Loss)	0.0	(0.0)	(175.0)	(0.0)	(400.0)	0.0	(0.1)	(122.2)
Net Profit	946.3	1,900.5	(50.2)	1,333.3	(29.0)	3,245.2	3,322.8	(2.3)
Adjus Profit	946.3	1,788.3	(47.1)	1,333.3	(29.0)	3,559.7	3,210.6	10.9
EPS (₹)	6.7	13.5	(50.2)	9.5	(29.0)	23.1	23.6	(2.3)
As % of Sales			BPS		BPS			BPS
Raw Matl Cost	60.8	54.1	673	58.6	220	57.9	53.2	465
Employee Exps	8.8	8.9	(11)	8.7	10	9.6	10.9	(132)
Other Exps	19.6	19.8	(12)	18.9	72	19.6	19.8	(23)

Source: Company, Way2Wealth

(₹ mn)

Consolidated	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	YoY (%)	QoQ (%)	9M FY22	9M FY21	YoY (%)
Revenue	18,619	17,713	16,405	16,038	6,031	17,701	20,409	21,329	16,937	18,876	18,891	(7.4)	0.1	54,703	44,141	23.9
EBITDA	2,941	2,911	2,605	2,449	427	3,132	3,521	3,322	2,443	2,600	2,032	(42.3)	(21.8)	7,075	7,080	(0.1)
EBITDA Margin (%)	15.8	16.4	15.9	15.3	7.1	17.7	17.3	15.6	14.4	13.8	10.8			12.9	16.0	
Net Profit	1,298	1,691	1,240	1,122	(249.0)	1,672	1,901	1,874	966	1,333	946	(50.2)	(29.0)	3,245	3,323	(2.3)

Source: Company, Way2Wealth

(₹ mn)

Particulars	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	YoY (%)	QoQ (%)	9M FY22	9M FY21	YoY (%)
INDIA																
Revenue	13,139	12,920	11,610	11,314	3,562	12,892	15,288	15,989	11,520	15,012	14,895	(2.6)	(0.8)	41,427	31,742	30.5
EBITDA	1,984	1,964	1,638	1,437	25	2,322	2,601	2,367	1,538	2,125	1,655	(36.4)	(22.1)	5,318	4,948	7.5
EBITDA Margin (%)	15.1	15.2	14.1	12.7	0.7	18.0	17.0	14.8	13.4	14.2	11.1			12.8	15.6	
EUROPE																
Revenue	5,480	4,792	4,795	4,724	2,469	4,809	5,121	5,340	5,417	3,864	3,996	(22.0)	3.4	13,277	12,399	7.1
EBITDA	959	944	969	1,016	402	810	920	955	905	475	377	(59.1)	(20.7)	1,757	2,132	(17.6)
EBITDA Margin (%)	17.5	19.7	20.2	21.5	16.3	16.8	18.0	17.9	16.7	12.3	9.4			13.2	17.2	

Source: Company, Way2Wealth

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Past Performance & Future Forecasting

(₹mn)

Particulars	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
India	44,900	54,195	49,386	47,730	56,544	67,617	76,811
YoY Growth (%)	12.8	20.7	(8.9)	(3.4)	18.5	19.6	13.6
Europe	19,893	20,910	19,791	17,740	19,388	20,191	22,353
YoY Growth (%)	16.3	5.1	(5.4)	(10.4)	9.3	4.1	10.7
Revenue	64,793	75,105	69,177	65,470	75,932	87,808	99,164
YoY Growth (%)	15.9	15.9	(7.9)	(5.4)	16.0	15.6	12.9
EBITDA	9,279	11,288	11,308	10,402	10,610	13,985	17,618
EBITDA Margin (%)	14.3	15.0	16.3	15.9	14.0	15.9	17.8
Net Profit	3,908	4,950	5,655	5,196	5,326	7,086	8,962
EPS ₹	27.8	35.2	40.2	36.9	37.9	50.4	63.7
DPS ₹	4.0	6.3	4.0	4.0	5.0	5.5	5.5
P/E (x)	52.8	41.7	36.5	39.7	38.7	29.1	23.0
EV/EBITDA (x)	22.9	18.5	18.4	19.8	18.3	13.4	11.2
P/BV (x)	9.5	8.1	6.9	5.8	5.3	4.2	3.7
Net Debt/Equity (x)	0.3	0.1	0.1	(0.0)	(0.1)	(0.2)	(0.1)
RoE (%)	18.0	19.3	18.8	14.6	15.1	17.3	18.1
RoCE (%)	18.3	20.1	19.5	17.0	18.1	20.4	24.7

Source: Company, Way2Wealth

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Disclosure of Interest Statement Endurance Technologies Ltd. as on 11th February 2022

Name of the Security	Endurance Technologies Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	No
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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