

12th February 2021

CMP - ₹1492.8/-

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Investment Arguments

- **Strong Q3FY21 enabled by domestic operations , aftermarket and cost controls** – Endurance technology Q3FY21 consolidated revenues grew 24% YoY to ₹20.4bn with EBITDA at ₹3.5bn (+35% YoY) enabled by 32% growth in standalone operations,+20% YoY growth from Bajaj Auto, HMSI, TVS Motors, Yamaha India, Royal Enfield & Kia Motors, 28% YoY increase in aftermarket segment, better product mix, tighter cost controls and higher incentives from the state government leading to EBITDA margin expansion of 137 bps YoY. European business revenue declined 4% YoY to EUR 59mn, due to 8% decline in PV production. European business EBITDA margin remained healthy at 18.3%, despite a decline in revenues. Net Profit came in at ₹1,901mn (+53% YoY) inclusive of incurred exceptional loss of ₹112mn related to VRS for all eligible permanent workmen at one of its plants located in Aurangabad. Management expects to save ~₹40mn per annum in wages.
- **Indian business grew +32% YoY; Benefitting from the import substitution by OEMs in categories like brakes** – The management stated that it registered 20% YoY growth from Bajaj Auto, HMSI, TVS Motors, Yamaha India, Royal Enfield & Kia Motors and 28% YoY increase in the aftermarket segment. The company received an incentive of ₹234.2mn from the Government of Maharashtra's 2013 Package Scheme of Incentives. The company has backward integrated its manufacturing by setting up an aluminum forging plant (used for inverted forks) and wire grade hoses (used for ABS). During 9MFY21, the company won new orders worth ₹4.4bn from HMSI, TVS, Hero, Hyundai, Suzuki, Yamaha, etc. It is also participating in RFQ for ₹11.5bn of new orders, where it expects to win at least one third of orders. It is benefitting from the import substitution by OEMs in categories like brakes.
- **European business under pressure** – Endurance's Europe revenues came in at EUR 59.1mn in Q3FY21. EBITDA came in at EUR 10.8mn in Q3FY21 (EBITDA margin of 18.3%). Net profit stood at EUR 4.6 mn. Over the past two years, the company has won orders worth EUR 120mn for electric and hybrid car applications. In Jul'20, the company consolidated its Grugliasco foundry operations into the Chivasso plant, with an aim to further improve operational efficiency. The company has achieved cost savings of about EUR 0.6mn on an annualized basis. The company expects a decline of 10-15% in European business in Q4FY21 due to lower car production. However, we do expect growth recovering in FY22 on back of revival in PV demand. It received new business worth EUR 12.6mn from Audi, Maserati, etc. in Europe, which will start from FY22.
- **Updates on the plants** –The company is setting up a new plant at *Waluj* for disc brake assemblies. The company plans to increase its disc brake production capability to 675,000 units per month (+90% from existing capacity) and the capacity will come in from Aug'21 onwards. Due to the increase in orders, it is increasing its alloy wheel capacity at *Chakan* plant by 33% to 60k sets per month. The production will commence from Q3FY22. The company will additionally set up the capacity to produce 720,000 units annually of cylindrical die

Important Statistics

M.CAP (₹ bn)	209.98
52 Week H/L (₹)	1510/562
NSE Code	ENDURANCE
BSE Code	542216

Financials

Particulars	₹ mn		
	FY19	FY20	9MFY21
Revenues	75,105	69,177	44,141
EBITDA	11,288	11,308	7,080
EBITDA Margin (%)	15.0	16.3	16.0
Net Profit	5,158	5,655	3,324
EPS (₹)	36.7	40.2	23.6
DPS (₹)	5.5	5.5	
RoE (%)	21.8	20.3	
RoCE (%)	17.4	16.4	
P/E (x)	40.7	37.1	
EV/EBITDA (x)	18.4	18.1	
P/BV (x)	8.1	7.0	

Shareholding pattern (%) Dec'20

Shareholding pattern (%)	Dec'20
Promoter	75.0
DII	12.8
FII	10.6
Public & Others	1.6

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casting parts. **Vallam plant:** The company has commenced its operations from Oct'20 and will be supplying to Hyundai Motors, Kia Motors and Royal Enfield from this plant.

- **Opportunity in alloy wheels as some OEMs were importing from China** – Net standalone cash stood at ₹486mn at the end of Dec'20 compared to ₹303mn as of Sep'20. The company will incur capex of ₹2-2.5bn in standalone operations due to setting up of brake facility in Pantnagar plant, capex required in Vallam plant due to new order wins from Hyundai Kia and increase in capacity requirement for alloy wheels. The company will incur capex of EUR 35mn in overseas operations in FY21. The management sees business opportunity in alloy wheels from the medium term perspective as some OEMs were importing alloy wheels from China. Indian operations mix stood at 71.8% during 9MFY21. The company is actively looking for organic as well as inorganic opportunities for newer products. The company expects to clock in EBITDA margin of 14.5-16% in standalone operations (excluding incentives). The company supplies 15-17% to Bajaj Auto, 11-13% to Royal Enfield, 5-8% to HMSI (excluding Activa), HMCL and Yamaha of content bases on ex-factory selling prices. The company has 29% market share in brake assembly and 45% market in disc brake assembly. The company is engaged with HMSI and HMCL for supplies of CVT and the mix of proprietary share business increased by 200bps YoY in Q3FY21.

View

We are likely to see the company outperform the two-wheeler industry in the domestic market due to stricter safety norms in 2W segment and the PV industry in the European market led by strong order-wins across OEMs. Risks are slower than expected growth in 2Ws industry, weaker order wins and faster than expected shift towards EVs. We continue to see the cost rationalisation initiatives taken to continue to enable to company clock targeted EBITDA margin of 14.5-16%. **Hence,** we view it as an **ACCUMULATE** at P/E 37.1x FY20.

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Financial Performance

Consolidated	(₹ mn)											
	Q1FY 20	Q2FY 20	Q3FY 20	Q4FY 20	Q1FY 21	Q2FY 21	Q3FY 21	YoY (%)	QoQ (%)	9MFY 21	9MFY 20	YoY (%)
Revenue	18,619	17,713	16,405	16,038	6,031	17,701	20,409	24.4	15.3	44,141	52,737	(16.3)
EBITDA	2,941	2,911	2,605	2,449	427	3,132	3,521	35.2	12.4	7,080	8,457	(16.3)
EBITDA Margin (%)	15.8	16.4	15.9	15.3	7.1	17.7	17.3			16.0	16.0	
Net Profit	1,298	1,691	1,240	1,122	-249	1,672	1,901	53.3	13.7	3,324	4,229	(21.4)

Source: Company Filing, Way2wealth Research

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
INDIA									
Revenue	13,139	12,920	11,610	11,314	3,562	12,613	15,288	31.7	21.2
EBITDA	1,984	1,964	1,638	1,437	25	1,854	2,601	58.8	40.3
EBITDA Margin (%)	15.1	15.2	14.1	12.7	0.7	14.7	17.0		
EUROPE									
Revenue	5,480	4,792	4,795	4,724	2,469	5,088	5,121	6.8	0.6
EBITDA	959	944	969	1,016	402	1,023	920	(5.1)	(10.1)
EBITDA Margin (%)	17.5	19.7	20.2	21.5	16.3	20.1	18.0		

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Disclosure of Interest Statement Endurance Technologies Ltd. as on 12 February 2021

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