

13th February 2023

CMP – ₹1,358.8/-

View – ACCUMULATE

Q3FY23 Result Highlights

- **Strong Europe performance aided by Govt incentive, while domestic operations impacted by weakness in 2W volumes** – Endurance Q3FY23 consolidated revenues grew ~11%YoY and declined 11.2%QoQ to ₹20.95bn with standalone Revenue/EBITDA at ₹15.96bn/₹1.77bn (+7.2% YoY/+7.3% YoY) with Europe's revenue +9.5% QoQ to ₹4,985mn. Management attributed the sales growth slowdown to weakness witnessed in aftermarket exports (-33% YoY) and two-wheeler or 2W sales slowdown post festive season. European customers' compensation and government incentive on cost spike helped in superior profitability in Q3FY23. EBITDA margins came in at 11.1% in domestic business while European margins came in at 12.4% aided by Italian government incentive and pass through of 50% of incremental energy cost hike. The EBITDA margins at the domestic level were flat YoY as the positive impact of RM cost deceleration was yet to be seen in the quarter. Consol PAT grew 14.4% yoy to ₹1.082mn, while EBITDA margins came in at 11.4%, down 10 bps QoQ and up 60 bps YoY from 10.8% as the chip shortage issue has taken back seat and was quite strong in the base quarter. It is hopeful of dual channel product approval from Bajaj Auto soon which should help the company ramp up production to 0.6mn units per annum. Aluminium castings business ramp-up helped in improving the car parts business to 8% of India sales.
- **New Order wins continues** – In India, in 9MFY23, the company won new business orders worth ₹8,774mn from OEMs other than Bajaj Auto like HMSI, Hero MotoCorp, Ather Energy, Hero Electric, M&M, TVS Motor, and Tata Motors. It includes ₹7,221mn of new business and ₹1,553mn of replacement business. Total business wins for EV-related products till date stood at ₹5,772mn which includes ₹1,988mn of new orders, mainly from Ather Energy, Hero Electric and Aptiv. The company has got ₹19,866mn worth of request for quotes (RFQ) from OEMs. Management mentioned that from FY20, in India, ₹27,440mn of business has been won, of which ₹19,620mn is new business and ₹7,820mn is the replacement market business. In this new business, ₹4,410mn of sales will be achieved in FY23, ₹6,730mn in FY24, and ₹8,480mn in FY25 and FY26. Recently, it also won a ₹700mn order for BMS from Hero Electric, with supplies to start from Q1FY24. It has also got a Letter of Intent (LoI) from Ather recently for front fork rear shock absorbers. The business value of this is ₹230mn and supplies will start towards the end of Q1FY24. In Europe, in 9MFY23, it won orders worth €67.4mn (v/s €70mn orders won in FY22) mainly from the VW group, Daimler and Stellantis. Of this total combined order worth ~€140mn, 30% relates to electric vehicles and 53% to hybrid vehicles
- **Business Update** – European business Q3FY23 revenue stood at €60.1mn (+26% YoY), EBITDA was at €8.6mn (+62% YoY), and PAT was at €3mn (+171% YoY). EBITDA margin was at 14.4% and management indicated that if not for aluminium cost inflation, the margin would have been 14.7%, and if not for raw material cost inflation over the last two years, the margin would have been 16.4%. On higher energy cost, management mentioned that the incentive from the Italian government was equivalent to ~45-50% of the price delta in natural gas prices as compared to the price of last year. However, these incentives are available only till the Mar'23 (till further review) and are given as credit which the company expects to cash out from

Important Statistics

MCAP (₹ bn)	191.1
52 Week H/L (₹)	1,563/1,048
NSE Code	ENDURANCE
BSE Code	540153

Shareholding Pattern	Dec'22(%)
Promoter	75.0
DII	15.5
FII	7.7
Public & Others	1.8

Financials

	(₹ mn)			
Particulars	FY19	FY20	FY21	FY22
Revenues	75,105	69,177	65,470	75,491
EBITDA	11,288	11,308	10,402	9,646
EBITDA Margin (%)	15.0	16.3	15.9	12.8
Net Profit	5,158	5,655	5,196	4,607
EPS (₹)	35.2	40.2	36.9	32.8
DPS (₹)	5.5	5.5	6.0	6.25
RoE (%)	19.3	18.8	14.6	13.0
RoCE (%)	20.1	19.5	17.0	11.8
P/E (x)	38.6	33.8	36.8	41.5
EV/EBITDA (x)	17.1	17.1	18.4	19.8
P/BV (x)	7.5	6.3	5.4	4.9

Particulars	FY23E	FY24E	FY25E
Revenues	89,009	100,845	113,803
EBITDA	10,589	13,098	15,769
EBITDA Margin (%)	11.9	13.0	13.9
Net Profit	5,186	6,894	8,718
EPS (₹)	36.9	49.0	62.0
DPS (₹)	7.0	7.5	8.0
RoE (%)	12.4	14.9	16.8
RoCE (%)	14.3	17.4	20.1
P/E (x)	36.9	27.7	21.9
EV/EBITDA (x)	18.0	14.5	12.0
P/BV (x)	4.4	3.9	3.4

Source: Company, Way2Wealth

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Jul'23. It expects Europe business capex to be €45mn in FY24 (capex in 9MFY23 was €25mn), based on its robust order book. In India, it mentioned that in the second-half of Q3FY23, sales of original equipment manufacturers or OEMs slowed down and hence, the company could not benefit from operating leverage. Management mentioned that the exports sales from the India standalone business for 9MFY23 declined 2.7% YoY to ₹1,385mn due to lower orders from the aftermarket in regions like Africa, South American countries like Colombia as well as the ASEAN belt. Due to the rise in orders from Bajaj Auto and Yamaha India, TVS Motor, and Hero Electric, the company had added a new plant at Chakan to help increase supplies from 240,000 to 380,000 alloy wheels a month. It started operations in Jul'22 and supplies to Hero Electric will start from the current month. Management also mentioned that the cost impact from raw material inflation in Q3FY23 was ~₹300mn and in 9MFY23 it was ~₹3,000mn. The company did not receive any Maharashtra state's mega project incentive in Q3FY23. It did not have any net debt, and had positive cash flow of ₹3,065mn.

- **Aftermarket segment** – The aftermarket segment's sales in 9MFY23 increased by 7.3% YoY to ₹3,085mn (vs. ₹2,874mn). The company is exporting aftermarket parts to 31 countries. Giving a further split of the aftermarket segment, management stated that in Q3FY23 the domestic aftermarket accounted for ₹871mn (vs. ₹844mn) YoY and the exports aftermarket accounted for ₹208mn (vs. ₹303mn YoY). The numbers for 9MFY23 stood at ₹2,531mn (vs. ₹2,061mn) and ₹554mn (vs. ₹813mn) for domestic and export markets, respectively. It mentioned that markets like Sri Lanka, Bangladesh, Egypt and certain parts of South America have not picked up well. However, they are expected to improve in the next three-to-six months, as per management.
- **Focus on value addition and profitable product mix** – Some of these products are:
 - +200cc motorcycle brakes for which the business has already commenced and is growing.
 - +200cc motorcycle clutch assemblies for which the supplies will start in Q1FY24.
 - Paper-based clutch assemblies (replacing fork-based clutch assemblies) for motorcycles, for which it is setting up a paper manufacturing plant at Waluj in Aurangabad as a backward integration initiative and its operations will start in Q1FY24. This will help lower the cost of paper and reduce the dependence on imports which are mainly from the US and China.
 - Another area is CVT or automatic clutch for scooters which is in the advanced stage of testing, and management expects to start supplies from FY24.
 - The company will increase the supplies of ABS for +125cc motorcycles in collaboration with Beijing West Industries. It has already started supplies to Bajaj Auto (Sep'21) and Royal Enfield (Feb'22) and is in engagement with other OEMs for procuring business.
 - It seeks to increase the business of its +200cc motorcycle inverted front forks and adjustable rear monoshock in collaboration with KTM. It has

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started supplies of inverted front forks to HMSI and won orders from Hero MotoCorp, & is in engagement with other OEMs as well.

- The company is also focusing on fully-finished machine castings as compared to raw castings or semi-finished castings for 2W, 3W and 4W as well as for non-automotive purposes.
- Management stated that the disc brake assembly business is growing with the addition of Bajaj Auto, TVS Motor, Royal Enfield, Yamaha India, Hero MotoCorp, Ather Energy, and HMSI as clients. Its second plant at Waluj in Aurangabad has been set up to meet this increase in volume and it has already started operations.
- The company's mix of 4W business (as a % of sales) is going up, driven by the castings business, and is now more than 8% (vs. 6.5% YoY). Combined with non-automotive segments, it seeks to take this share to more than 10%. It has got ₹2.5bn of orders from Hyundai and Kia. It has also got orders from Mahindra & Mahindra or M&M and also from Tata Motors.

➤ **Backward integration** – Endurance Technologies has entered into two backward integration areas, also import substitutes, such as:

- Aluminium forgings for inverted front forks for which supplies have started from the Aurangabad plant from Apr'22 for Bajaj Auto and also direct exports to KTM. It has also won an order for stem assembly and under-bracket aluminium forgings from Hero MotoCorp. It is also engaged with other OEMs for supply of aluminium forgings other than for inverted front forks.
- Wire hoses for ABS applications in the mid- and high-end bikes for which supplies have already started last year.

➤ **ABS** – Management indicated the current run-rate will lead to 400,000 ABS assemblies this month. It is also in the process of supplying dual channel ABS from Jun'23 and scaling it up by additional assembly lines and adding a volume of 200,000 p.a. by Mar'23, taking the total volume to 600,000 units p.a. It will scale this up further to 1.2mn units p.a. by 2HFY24. From next month (Mar'23) it will manufacture in-house ABS valves, which will help in substantially lowering costs, as per management.

➤ **EV plan** – Management mentioned that its electric vehicle or EV strategy is to focus on suspension, brakes, aluminium castings and BMS. However, it also has some more products under consideration and is actively working on them. Management also mentioned that it is focusing on the e-bicycle business for the domestic as well as export markets. On Maxwell, management updated that Q3FY23 revenue stood at ₹58mn (vs. ₹40mn YoY) and EBITDA loss at ₹47mn (vs. EBITDA loss of ₹61.5mn YoY). It indicated that the loss continued due to the postponement of the launch of Hero MotoCorp's electric scooter 'Vida', and also due to semiconductor shortage. Maxwell's (a 51% subsidiary) EBITDA loss fell by 25% QoQ to ₹46.7mn. Management targets profitable growth for Maxwell from FY24, and to aid this it is investing in an in-house BMS assembly line to substantially lower the cost. It also mentioned that margins would improve further when semiconductor shortage eases.

View

The quarterly numbers of Endurance were a mixed bag on weak Indian profitability, but we believe the company will continue to outperform the industry led by (1) Improvement in 2W demand in FY24 (after two weak years), and thereon led by strong underlying trends for scooterization and premiumisation (2) addition of new and value added products (ABS supply ramp-up over FY23 aided by valves business, driveshafts for Bajaj including LCVs and 3Ws, entry into crankshaft business, non-automotive castings, alloy wheels, disc brakes, front and inverted forks etc.), (3) ramp-up in EV products (EV order book of ~₹6bn excl. Maxwell) and (4) increasing share of after markets and exports (though temporarily subdued). Furthermore, as the chip supply issue is negligible now, 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, recession and other supply chain issues. However, with the main inhibitor of profitable growth in EU; the energy costs which are softening from Q3FY23, we anticipate surge in margins there as well. The array of acquisitions in Europe should spice up the business there. Higher operating leverage stemming from higher demand from 2Ws should lead to better margin performance also driven by falling input costs. As the company focuses on profitable growth through higher entry barrier products like ABS and drive shafts with new order wins from E2W manufacturers which should help in reducing the ICE risk of the 2W segment's sales (60% of sales), hence **we continue to view it as an ACCUMULATE stock trading at P/E 21.9x FY25E EPS of ₹62.**

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FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ(%)	9MFY23	9MFY22	YoY(%)
Revenue	20,952.5	18,891.2	10.9	23,606.3	(11.2)	65,697.1	54,703.4	20.1
Matl Cost	12,651.8	11,431.9	10.7	14,501.9	(12.8)	40,325.5	31,978.7	26.1
Purchases	313.4	238.0	31.7	234.4	33.7	920.9	664.3	38.6
Stock Changes	(408.7)	(187.6)	117.9	(29.5)	1,285.8	(1,208.2)	(995.0)	21.4
Employee Exps	1,932.4	1,669.3	15.8	1,742.1	10.9	5,544.6	5,259.9	5.4
Other Exps	4,068.3	3,707.5	9.7	4,441.4	(8.4)	12,605.6	10,720.5	17.6
EBITDA	2,395.2	2,032.1	17.9	2,716.0	(11.8)	7,508.7	7,075.0	6.1
EBITDA Margin (%)	11.4	10.8	67	11.5	(7)	11.4	12.9	(150)
Other Income	115.1	74.7	54.0	84.3	36.5	246.1	283.6	(13.2)
Depreciation	1,016.1	913.5	11.2	992.7	2.4	3,000.2	2,836.1	5.8
Finance Cost	45.8	14.0	227.7	61.1	(25.0)	126.0	46.6	170.7
PBT	1,448.4	1,179.3	(22.8)	1,746.5	(17.1)	4,628.6	4,476.0	(3.4)
Tax	366.1	232.9	(57.2)	431.6	(15.2)	1,094.7	916.3	(19.5)
Exceptional Item	-	-	-	-	(100.0)	(102.9)	(314.5)	(67.3)
Minority Interest -Profit/(Loss)	-	(0.0)	(100.0)	-	-	-	(0.0)	(100.0)
Net Profit	1,082.3	946.3	14.4	1,314.9	(17.7)	3,431.1	3,245.2	5.7
Adjus Profit	1,082.3	946.3	14.4	1,314.9	(17.7)	3,533.9	3,559.7	(0.7)
EPS (₹)	7.7	6.7	14.4	9.3	(17.7)	24.4	23.1	5.7
As % of Sales			BPS		BPS			BPS
Raw Matl Cost	59.9	60.8	(85)	62.3	(237)	60.9	57.9	309
Employee Exps	9.2	8.8	39	7.4	184	8.4	9.6	(118)
Other Exps	19.4	19.6	(21)	18.8	60	19.2	19.6	(41)

Source: Company, Way2Wealth

(₹ mn)

Consolidated	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	YoY (%)	QoQ (%)	9M FY23	9M FY22	YoY (%)
Revenue	17,713	16,405	16,038	6,031	17,701	20,409	21,329	16,937	18,876	18,891	20,788	21,138	23,606	20,952	10.9	(11.2)	65,697	54,704	20.1
EBITDA	2,911	2,605	2,449	427	3,132	3,521	3,322	2,443	2,600	2,032	2,571	2,398	2,716	2,395	17.9	(11.8)	7,509	7,075	6.1
EBITDA Margin (%)	16.4	15.9	15.3	7.1	17.7	17.3	15.6	14.4	13.8	10.8	12.4	11.3	11.5	11.4			11.4	12.9	
Net Profit	1,691	1,240	1,122	(249.0)	1,672	1,901	1,874	966	1,333	946	1,362	1,034	1,315	1,082	14.4	(17.7)	3,431	3,245	5.7

Source: Company, Way2Wealth

(₹ mn)

Particulars	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	YoY (%)	QoQ (%)	9M FY23	9M FY22	YoY (%)
INDIA																			
Revenue	12,920	11,610	11,314	3,562	12,892	15,288	15,989	11,520	15,012	14,895	15,544	16,161	19,054	15,968	7.2	(16.2)	51,183	41,427	23.6
EBITDA	1,964	1,638	1,437	25	2,322	2,601	2,367	1,538	2,125	1,655	1,968	1,742	2,319	1,777	7.3	(23.4)	5,837	5,318	9.8
EBITDA Margin (%)	15.2	14.1	12.7	0.7	18.0	17.0	14.8	13.4	14.2	11.1	12.7	10.8	12.2	11.1			11.4	12.8	
EUROPE																			
Revenue	4,792	4,795	4,724	2,469	4,809	5,121	5,340	5,417	3,864	3,996	5,244	4,978	4,552	4,985	24.7	9.5	14,514	13,277	9.3
EBITDA	944	969	1,016	402	810	920	955	905	475	377	603	656	397	618	64.2	55.6	1,671	1,757	(4.9)
EBITDA Margin (%)	19.7	20.2	21.5	16.3	16.8	18.0	17.9	16.7	12.3	9.4	11.5	13.2	8.7	12.4			11.5	13.2	

Source: Company, Way2Wealth

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FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
India	44,900	54,195	49,386	47,730	56,971	68,794	78,356	88,412
YoY Growth (%)	12.8	20.7	(8.9)	(3.4)	19.4	20.8	13.9	12.8
Europe	19,893	20,910	19,791	17,740	18,521	20,215	22,489	25,391
YoY Growth (%)	16.3	5.1	(5.4)	(10.4)	4.4	9.1	11.2	12.9
Revenue	64,793	75,105	69,177	65,470	75,491	89,009	100,845	113,803
YoY Growth (%)	15.9	15.9	(7.9)	(5.4)	15.3	17.9	13.3	12.8
EBITDA	9,279	11,288	11,308	10,402	9,646	10,589	13,098	15,769
EBITDA Margin (%)	14.3	15.0	16.3	15.9	12.8	11.9	13.0	13.9
Net Profit	3,908	4,950	5,655	5,196	4,607	5,186	6,894	8,718
EPS ₹	27.8	35.2	40.2	36.9	32.8	36.9	49.0	62.0
DPS ₹	4.0	5.5	5.5	6.0	6.3	7.0	7.5	8.0
P/E (x)	48.9	38.6	33.8	36.8	41.5	36.9	27.7	21.9
EV/EBITDA (x)	21.2	17.1	17.1	18.4	19.8	18.0	14.5	12.0
P/BV (x)	8.8	7.5	6.3	5.4	4.9	4.4	3.9	3.4
Net Debt/Equity (x)	0.3	0.1	0.1	(0.0)	0.01	(0.1)	(0.1)	0.0
RoE (%)	18.0	19.3	18.8	14.6	13.0	12.4	14.9	16.8
RoCE (%)	18.3	20.1	19.5	17.0	11.8	14.3	17.4	20.1
FCF	3,157	2,220	4,943	3,270	2,125	1,387	2,851	5,357
Cash Balances	2,199	5,027	5,379	6,209	4,026	2,419	1,896	4,129

Source: Company, Way2Wealth

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Disclosure of Interest Statement Endurance Technologies Ltd. as on 13 February 2023

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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