

13th November 2020

CMP – ₹1030.7/-

View – Buy

Quarterly Result Highlights

- **Q2FY21 Topline remained flattish YoY** – The Q2FY21 topline remained flattish YoY at ₹17,701mn. Flattish revenue was due to flattish revenue growth in the standalone business and benefits of appreciation of EUR versus Rs, offset by 7-8% decline in subsidiaries revenues in EUR terms. Revenues in India business were flat YoY in Q2FY21 led by double-digit growth with HMSI, Yamaha India, Suzuki and Tata Motors, offset by 7-12% YoY decline in revenues from Bajaj Auto and Royal Enfield and 5% YoY decline in the aftermarket segment. EBITDA was at ₹3,132mn (+7.6% YoY; +633% QoQ) led by Raw Material cost savings, strict control on other expenses and higher-than-expected government incentives. However, subsidiaries EBITDA margin got impacted due to negative operating leverage and inferior product mix in Q2FY21. Net profit reported was at ₹1,672mn, flat YoY and QoQ.
- **Business recovery from India's business** – Revenues in India business remained flattish YoY led by 18-19% YoY growth with HMSI, 14% YoY growth in Yamaha, 29% YoY growth in Suzuki and 39% YoY growth with Tata Motors, offset by 12% YoY decline Royal Enfield, 6-7% YoY decline with Bajaj Auto and 5% YoY decline in aftermarket segment. During the quarter, the company received incentive of ₹537.2mn under Package Scheme of Incentives 2013, Government of Maharashtra. The company highlighted that standalone revenues grew by 35% YoY in Oct'20. The company will incur one-time cost to the tune of ₹112mn related to rollout of VRS in its Waluj plants. This will have positive impact of >₹47 mn from FY22 onwards
- **Order book remains robust** – The company won new orders from HMSI, TVS Motor and Hyundai in Q2FY21. The company had already won new orders worth ₹5.9bn in FY20 mainly from TVS Motor (for two-wheeler front forks and three-wheeler brake assembly), Hyundai-Kia, Hero MotoCorp and HMSI out of which the company will commence the production for 50% of the orders received. The company has also in discussion for orders worth ₹12.3bn from Hyundai-Kia, HMSI, TVS Motor, Tata Motors and Hero MotoCorp. The company will start supplying ABS to Bajaj Auto in Q4FY21. In terms of OEMs, the company has won new orders worth ₹1.9bn for TVS's two-wheeler and three-wheeler brake and suspension products. The company has also received further request for orders worth ₹540mn for brake products and ₹276mn for suspension products from TVS Motor. Based on current order book and expectation of double-digit YoY growth in 2W production volumes in FY2022, the company expects HMSI revenues to increase from ₹6.1bn in FY20 to ₹8-9bn in FY22, Yamaha revenues to increase from ₹2.1bn in FY20 to ₹2-2.5bn in FY22, HMCL revenues to increase from ₹2.1bn in FY20 to ₹3.5bn in FY22, TVS Motor revenues to reach ₹1.7-2bn in FY22 (₹400-500mn in FY21) and Hyundai-Kia revenues to reach ₹2.75-3bn in FY22.
- **European business was a drag** – Endurance's Europe revenues came in at EUR 56.3mn in Q2FY21 compared to EUR 61.6mn in Q2FY20. EBITDA came in at EUR 9.8mn in Q2FY21 compared to EUR 12.4mn in Q2FY20. Net profit stood at EUR 3.8mn in Q2FY21 compared to EUR 4.2mn in Q2FY20. The company won orders worth ~EUR 11mn during Q2FY21 from Audi, Daimler and Maserati. Over the last two years, the company has won orders worth EUR 110mn for electric and hybrid car applications. In Jul'20, the company has consolidated Grugliasco foundry operations into Chivasso plant, with an aim to further improve operational efficiency. The company expects cost savings of about EUR0.6 mn on an annualized basis.

Important Statistics

M.CAP (₹ bn)	144.98bn
52 Week H/L (₹)	1202/562
NSE Code	ENDURANCE
BSE Code	542216

Shareholding pattern (%)	Sep'20
Promoter	75.0
DII	11.9
FII	11.6
Public & Others	1.5

Financials

Particulars	₹ mn		
	FY19	FY20	1HFY21
Revenues	75,105	69,177	23,732
EBITDA	11,288	11,308	3,559
EBITDA Margin (%)	15.0	16.3	15.0
Net Profit	5,158	5,655	1,423
EPS (₹)	36.7	40.2	10.1
DPS (₹)	5.5	5.5	
RoE (%)	21.8	20.3	
RoCE (%)	17.4	16.4	
P/E (x)	28.1	25.6	
EV/EBITDA (x)	12.7	12.5	
P/BV (x)	5.6	4.8	

Source: Company Filing, Way2wealth Research

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- **Halol plant** – The company supplies suspension parts to Hero MotoCorp. The company started production from Sep'18 and currently has reached production of 6,000 front forks sets per day in Mar'20. **Karnataka plant** – The company started supplying front forks to HMSI from Q4FY20. The company will supply 2.7 mn front fork sets by FY21 (3,500 sets per day). The company will also supply to TVS Motor from this plant. **Pantnagar plant** - The company will set up brake facility as a part of its diversification strategy and plans to produce 600,000 units of CBS brakes from Jan'21 onwards. **Vallam plant** – The company has commenced its operations from Oct'20 (will be supplying to Hyundai Motors, Kia Motors and Royal Enfield from this plant). The company is on course to additionally set up capacity to produce 720,000 units annually of cylindrical die casting parts and will commence its operations from Oct'21.
- **Business Opportunity in Alloy wheels; Organic & inorganic opportunities for newer products** – 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 in FY21. For Europe, the company will incur capex of EUR 35mn in FY21. The company sees business opportunity in alloy wheels from the medium term perspective as some OEMs were importing alloy wheels from China (currently the company has capacity to produce 270,000 units on a monthly basis. The company is actively looking for organic as well inorganic opportunities for newer products. Indian operations mix stood at 69% during 1HFY21. The company will save ₹25mn per month in standalone business due to material cost reduction. Passenger vehicle mix in the standalone business stood at 6.5% in Q2FY21 (Hyundai-Kia mix stood at 2% in Q3FY21) and it is the leader in casting and suspension parts in Indian 2W industry and second largest player in transmission and braking parts in Indian 2W industry.

View

The company is likely to outperform two-wheeler industry in the domestic market and PV industry in the European market led by strong order wins across OEMs in both Indian (due to stricter safety norms in 2W segment) and overseas markets. Even though near term challenges do remain in terms of customer buying sentiment and second wave of COVID-19 in Europe. **The long-term growth opportunities both domestic and exports remain intact. Hence, we continue to maintain our BUY with a fair value of ₹1130-1150.**

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Key Performance Parameters

(₹ mn)

Consolidated	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY(%)	QoQ(%)	1HFY21	1HFY20	YoY(%)
Revenue	18,619	17,713	16,405	16,038	6,031	17,701	(0.1)	(62.4)	23,732	36,804	(35.5)
EBITDA	2,941	2,911	2,605	2,449	427	3,132	7.6	(82.6)	3,559	6,324	(43.7)
EBITDA Margin (%)	15.8	16.4	15.9	15.3	7.1	17.7			15.0	17.2	
Net Profit	1,298	1,691	1,240	1,122	(249)	1,672	(1.1)	(122.2)	1,423	3,347	(57.5)

Source: Company Filing, Way2wealth Research

India & Europe Revenue & EBITDA Performance

(₹ mn)

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ (%)
INDIA								
Revenue	13,139	12,920	11,610	11,314	3,562	12,613	(2.4)	254.1
EBITDA	1,984	1,964	1,637	1,437	25	1,854	(5.6)	7316.4
EBITDA Margin (%)	15.1	15.2	14.1	12.7	0.7	14.7		
EUROPE								
Revenue	5,480	4,792	4,795	4,724	2,469	5,088	6.2	106.1
EBITDA	959	944	969	1,016	402	1,023	8.3	154.4
EBITDA Margin (%)	17.5	19.7	20.2	21.5	16.3	20.1		

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Disclosure of Interest Statement Endurance Technologies Ltd. as on November 13, 2020

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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