

26th August 2020

CMP -₹1068.7/-

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Company Background

Endurance Technologies (ENDU) is one of India's leading automotive component manufacturing companies. Anurang Engineering Company Private Limited which merged into the company in 2006, commenced manufacturing of aluminium castings in Aurangabad, Maharashtra, India in 1986. Over time, grown organically in India and diversified capabilities by introducing suspension products, transmission products and braking systems. Starting with two aluminium casting machines in FY 1986, it has grown to operate 16 plants in India and 9 plants in Europe. Today the company is the largest aluminium die casting manufacturer in India and one of the leading automotive component manufacturers in aluminium die casting (including alloy wheels), suspension, transmission and braking systems. Provides complete solution provider from design to after-market service. Products and services in India include:

- Raw and machined aluminium castings such as high pressure die castings, low pressure die castings and aluminium alloy wheels for motorcycles
- Suspension products such as shock absorbers for scooters, motorcycles and 3 wheeler, front fork for motorcycles & scooters, hydraulic dampers for quadricycles
- Transmission products such as clutch assemblies, cork and paper based friction plates for motorcycles & three wheelers and Continuous Variable Transmission (CVT) assemblies for scooters
- Braking systems such as hydraulic disc brake assemblies including calipers, master cylinder and rotary disc brake for motorcycles & scooters and hydraulic drum brake assemblies and tandem master cylinder for three wheelers
- After-market services to cater to the replacement market

In Europe, predominantly cater to four wheeler OEMs, focusing on engine and transmission components. Products include raw and machined aluminium castings (high pressure and gravity die castings products) and steel, cast iron and engineering plastic parts.

Endurance supplies to almost every OEM in the segment, including Bajaj, Hero, TVS, Royal Enfield, and HMTI. Further, it produces multiple components, including aluminium machined castings, suspension, braking systems, and transmissions (clutches). The auto parts maker is a dominant entity in the components that it supplies. For instance, in suspension products the company has 35-40% of the market share; the company has a 25% share of hydraulic brakes and in transmissions products the share is at 16%.

Endurance's likely value of the business in the components supplied to the 2W/3W industry is ~ 5-6% of the overall value, making it the largest supplier in this segment. The value of supplies by Endurance as a proportion of the components utilized by the listed 2W/3W OEMs (Hero, Bajaj, etc.) as well as the unlisted entities (HMTI, etc) is significant.

Important Statistics

M.Cap (₹ bn)	150.33bn
52 Week H/L (₹)	1202/562
NSE Code	ENDURANCE
BSE Code	542216

Financials

Particulars	FY18	FY19	FY20
Revenues	65,514	75,105	69,177
EBITDA	9,278	11,288	11,308
EBITDA Margin (%)	14.6	15.0	16.3
Net Profit	4,176	5,158	5,655
EPS (₹)	29.7	36.7	40.2
DPS (₹)	4.0	5.5	5.5
RoE (%)	21.4	21.8	20.3
RoCE (%)	16.5	17.4	16.4
P/E (x)	36.0	29.1	26.6
EV/EBITDA (x)	16.3	13.4	13.2
P/BV (x)	6.9	5.9	5.0

Shareholding pattern (%)	June'20
Promoter	75.0
DII	11.6
FII	11.8
Public & Others	1.6

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Investment Argument

- **Cost Cutting and Product mix measures helped in tough environment with production reaching near normal levels** – Endurance Technologies (ENDU) posted consolidated loss of ₹249mn in Q1FY21 against a profit of ₹1.65bn in Q1FY20. Standalone loss stood at ₹319mn. Consolidated net revenue of ₹6.0bn declined by ~68% YoY. Standalone revenue declined by ~74% YoY to ₹3.6bn, in-line with the 72% decline in the Domestic Two-Wheeler industry. Europe revenue declined by ~56.9% YoY to EUR 30.4mn. Consolidated EBITDA margin stood at 7.1%, down 1080bps YoY. Better product mix, focus on lowering fixed costs, variable costs, material costs and capex helped to contain margin decline. Europe EBITDA declined by 55.8% YoY to EUR 5.6mn but margin improved to 18.5% on the back of better product mix, reduction in contract labour and labour cost support received from German and Italian governments. The management stated that operations are recovering fast and its India net sales value reached 75% of the pre-COVID level in Jul'20 and will be back to normal level in Aug'20. The management also stated that sales recovery is driven by demand for entry-level bikes in rural and semi-urban India due to a good winter crop and on hope of a bumper summer crop (due to a good monsoon). Acquisition of Adler and Grimeca has helped India operation in getting new business for 200cc+ motorcycle clutch assemblies and brakes, which will start in 2021 & 2022. Also, higher demand for personal mobility will drive the sales further.
- **Order book remains strong; recovery in FY22** – ENDU won new brake assembly business worth ₹828mn from TVS (starting Mar'21) and Yamaha (starting Oct'21). Request for quotes in domestic business from various OEMs stood at ₹15,438mn. With TVS, it has orders 2W/3W brakes (₹1.2bn p.a) and suspensions (₹320mn p.a, starting from Q3FY21). The company is de-risking its Combined Brake system (CBS) business, as it is only made at Aurangabad. It is now setting up 600k per annum CBS capacity at the Panthnagar plant, which should start from Apr'21. The management revised the capex guidance to ₹2,000mn from ₹1,500mn earlier because of new opportunities at the Panthnagar plant, additional investments for new models from Hyundai and Kia and for alloy wheels (due to increase in demand amid import substitution).
- **Brakes business** – will start supplying to TVS, RE, Bajaj, Honda (from Sep'20) and Yamaha from next year. Target is to supply all the core products to all the OEMs, which will be one of the growth drivers.
- **The focus will be on value added products & profitable product mix in future business** – (1) brakes & clutch assemblies for 200cc+ segment, (2) paper clutch assemblies for m/cycle, (3) Continuous Variable Transmission (CVT) for scooters, (4) Anti-locking Braking system (ABS), Inverted Front Fork and Adjusted rear mono shock absorbers for local and global requirement (for KTM), and (5) fully-finished machined castings. The Vallam plant for machined aluminum casting for Hyundai and Kia would start from Oct'20 and supply to Venue and Sonet. Additionally, it has got RFQs worth ₹1.1bn for machined aluminum castings for Hyundai's plant in India, Korea and Russia. ABS business is on track for supplies starting Q4FY21. Aluminium casting forms 37.5% of India business. Competitors: *Casting & Machining business* - Sundaram Clayton, Jay Hind Industries, RICO and Sunbeam. *Brakes business* – Nissin & Brembo. *ABS business* (starting from Q4FY21) - Bosch and Continental.

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- **Europe Business** – The management stated that July'20 actual sales and short term forecast for Q2FY21 show signals of rebound in passenger car sales, driven by incentives, mostly for EVs apart from ICEs by almost all European countries. In the last two years, EUR 110mn of business has been won for electric and hybrid cars and will reach peak in 2023. Further, EUR 45bn business is being discussed with Volkswagen for electric and hybrid cars and the management expects to win at least 15% of this business. The management is very positive on the casting supply business for EV application. For Europe, a focused cost containment program has been started, which will be completed by next month and lead to annual cost saving of EUR0.6mn. FY21 capex for the European business will not be more than EUR 2.5mn.
- **Aftermarket business** – Aftermarket sales declined by 71.5% to ₹169mn in Q1FY21 and formed 4.7% of net sales. Aftermarket business is recovering fast and is expected to reach average monthly FY20 sales value by Q4FY21. Markets such as South America and Africa have not opened yet. Added markets like Qatar and Cambodia in Q1FY21 and plans to add Brazil and Congo, which will take total export markets to 32.
- **ENDU is entering backward integration product**, which will substitute imports like aluminium forging axle clamps starting from Apr'21 in technical collaboration with FGM Italy.

View

We are positive on the growth story of company and believe that it will continue to outperform the industry. We are positive on the order book ramp-up for the company, particularly with new OEMs. Given its strong order book position in two-wheelers, we expect strong growth in H2FY21 and FY22, led by growth in value-added products and customer acquisition. Cost reduction and product mix measures augers well for the company going ahead. With balance sheet strength, strong commanding position in domestic ancillary industry, increasing revenue share from European business along with planned capacity additions, **we see the stock as a value BUY at a trailing P/E 26.6x FY20.**

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Financial & Operating Parameters

Consolidated Financials

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)	FY19	FY20	YoY (%)
Revenue	18,619	17,713	16,405	16,038	6,031	(67.6)	(62.4)	75,105	69,177	(7.9)
EBITDA	2,941	2,911	2,605	2,449	427	(85.5)	(82.6)	11,288	11,308	0.2
EBITDA Margin (%)	15.8	16.4	15.9	15.3	7.1			15.0	16.3	
Net Profit	1,298	1,691	1,240	1,122	(249)	(119.2)	(122.2)	5,158	5,655	9.6

Source: Company Data, Way2Wealth Inst Equity

India & Europe Revenue & EBITDA Performance

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ (%)
INDIA							
Revenue	13,139	12,920	11,610	11,314	3,562	(72.9)	(68.5)
EBITDA	1,984	1,964	1,637	1,437	25	(98.7)	(98.3)
EBITDA Margin (%)	15.1	15.2	14.1	12.7	0.7		
EUROPE							
Revenue	5,480	4,792	4,795	4,724	2,469	(54.9)	(47.7)
EBITDA	959	944	969	1,016	402	(58.0)	(60.4)
EBITDA Margin (%)	17.5	19.7	20.2	21.5	16.3		

Source: Company Data, Way2Wealth Inst Equity

Revenue mix (%)

Year	India	Europe
FY14	74.1	25.9
FY15	71.3	28.7
FY16	69.8	30.2
FY17	69.2	30.8
FY18	70.6	29.4
FY19	72.0	28.0
FY20	71.0	29.0
Q1FY21	59.0	41.0

Source: Company Data, Way2Wealth Inst Equity

Europe business - Revenue & EBITDA trend

Year	Revenue	EBITDA	EBITDA Margin (%)
FY15	14,094	1,905.0	13.5
FY16	15,822	2,389.0	15.1
FY17	17,275	2,873.0	16.6
FY18	18,665	3,381.0	18.1
FY19	21,039	3,968.0	18.9
FY20	19,785	3,885.0	19.6

Source: Company Data, Way2Wealth Inst Equity

ENDU has consistently outperformed the underlying industry

Particulars	FY17	FY18	FY19	FY20
2W+3W industry volume growth (%)	4.2	16.0	7.1	(14.2)
Endurance's domestic revenue growth (%)	6.0	15.7	20.7	(8.8)

Source: Company Data, Way2Wealth Inst Equity

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Segment-wise break-up (% , consolidated)

Aluminium casting and alloy wheels	52.2
Suspension	23.3
Transmission	5.5
Braking System	4.6
Aftermarket	3.8

Source: Company Data, Way2Wealth Inst Equity

Market share in India business (%)

Segment	FY15	FY20E
Aluminium casting and alloy wheels	14.5	16.0
Braking Systems	11.7	24.0
Shock Absorbers & Front forks	27.3	33.0
Transmission	11.6	16.0

Source: Company Data, Way2Wealth Inst Equity

Key customers and Revenue mix

(₹ mn)				
Particulars	FY17	FY18	FY19	FY20
Key customers - % of domestic revenue				
Bajaj Auto	53.6	49.1	52.4	53.2
Royal Enfield	10.4	11.3	10.8	8.4
Honda Motorcycle	10.2	10.2	8.0	13.0
Hero MotoCorp	1.8	1.8	3.5	4.2
Others	23.9	23.9	25.2	21.2
Key customers - YoY growth (%)				
Bajaj Auto	(2.8)	5.9	29.0	(7.5)
Royal Enfield	30.0	26.0	15.6	(29.4)
Honda Motorcycle	30.0	44.0	(24.2)	48.1
Hero MotoCorp	n.a	77.9	49.8	9.0
Others	2.6	16.4	26.3	(23.4)
Key customers - % of Europe revenue				
FCA	51.0	47.4	46.4	27.0
VW Group (incl Porsche)	n.a	13.6	20.7	28.0
Daimler	n.a	17.0	19.7	16.1
Others	49.0	22.0	13.2	28.9
Key customers - YoY growth (%)				
FCA	9.9	0.4	10.4	(45.3)
VW Group (incl Porsche)	n.a	n.a	71.6	26.9
Daimler	n.a	n.a	30.2	23.1
Others	8.4	n.a	(32.3)	106.3

Source: Company Data, Way2Wealth Inst Equity

Europe revenue mix (%) in FY20

FCA	27.0
VW (incl Porsche)	28.0
Daimler	16.0
Fiat SA.	7.0
PSA	4.0
Others	18.0

Source: Company Data, Way2Wealth Inst Equity

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Disclosure of Interest Statement Endurance Technologies Ltd as on August 26th, 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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