AXIS DIRECT

ENDURANCE TECHNOLOGIES

AUTO

21 FEB 2018 Quarterly Update

BUY

Target Price: Rs 1,540

Strong quarter; stronger outlook

Endurance (ETL) had a strong Q3, as anticipated. India revenue grew 25% YoY, as it continues to outperform production growth of India 2W industry (+16% YoY). With volume recovery of Bajaj Auto (~50% of ETL India revenue; +22% YoY in Q3) and strong order wins with Hero, Honda 2W, KTM and Royal Enfield, we expect ETL's revenue growth and profitability to remain robust.

We reiterate ETL is the best way to play two-wheelers in India, as it gains market/wallet share with untapped OEMs coupled with structural rise in content (with upcoming safety norms and premiumization). Our estimates are largely unchanged; we expect FY18-20 earnings CAGR of 34% (among the highest in our coverage). **Reiterate BUY** with TP of Rs 1,540 (15x FY20 EV/EBITDA; in line with leading Auto stocks).

CMP	: Rs 1,236
Potential Upside	: 25%

MARKET DATA

No. of Shares	: 141 mn
Free Float	: 17%
Market Cap	: Rs 174 bn
52-week High / Low	: Rs 1,397 / Rs 652
Avg. Daily vol. (6mth)	: 82,067 shares
Bloomberg Code	: ENDU IB Equity
Promoters Holding	: 83%
FII / DII	: 10% / 5%

Highlights from management call

- **India revenue growth robust (70% of consolidated revenue):** Revenue growth of 25% YoY was in line with est as Bajaj Auto (~50% of ETL India sales) saw ~22% production growth during the quarter. Overall growth was also driven by market share gains with Honda 2W & Hero and recovery in aftermarket revenues. Scooters penetration is expected to increase, as ETL ramps up supplies to HMSI (suspension) and Hero (transmission) scooter portfolio. EBITDA margin at 12.8% (+120 bps YoY) was in line with estimate
- **Europe business stable (30% of consolidated revenue):** Revenue growth of +9% YoY was driven by new order wins and ramp-up at Germany facility. EBITDA margin at 17.0% (flat YoY) was in line with estimate
- **Update on new capex:** (1) ETL will set up new facility in Karnataka for supplies to HMSI (Honda Motorcycle & Scooters) plant in that region. The facility will commission production in Q3 FY19; (2) ETL's new in-house test track will be operational in 2018. This will help the company fast track supply of final product to OEMs

Financial summary (Consolidated)

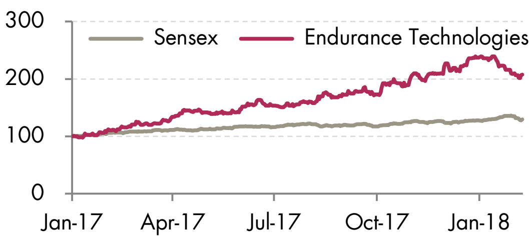
Y/E March	FY17	FY18E	FY19E	FY20E
Sales (Rs mn)	54,639	62,040	73,031	95,582
Adj PAT (Rs mn)	3,303	4,082	5,180	7,339
Con. EPS* (Rs)	-	28.1	35.8	52.3
EPS (Rs)	23.5	29.0	36.8	52.2
Change YOY (%)	10.3	23.6	26.9	41.7
P/E (x)	52.6	42.6	33.5	23.7
RoE (%)	20.8	21.4	22.3	25.5
RoCE (%)	21.4	25.4	28.7	34.4
EV/E (x)	24.1	19.7	16.2	11.9
DPS (Rs)	2.5	3.0	3.5	4.0

Source: *Consensus broker estimates, Company, Axis Capital
CMP as on 15 Feb 2018

Key drivers

	FY18E	FY19E	FY20E
India revenue growth	15.9	20.9	38.5
EU revenue growth	8.4	9.8	9.5
Consol EBITDA margin	14.0	14.3	14.4

Price performance



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- **Implementation of ABS from FY18/19:** ABS is a significant opportunity going into the upcoming safety regulations (compulsory for all new/existing two-wheelers post April 2018/19) for >125cc vehicles. Product development is as per schedule and the company will send products for testing to OEMs in mid FY19. ETL is planning for capacity of 600k capacity in initial phase will augment capacity as order book increases
- **Implementation of CBS from FY18/19:** For <125cc vehicles, CBS will be mandatory from April 2018/19. ETL has already manufactured CBS and the product is under validation stage with different OEMs. However, management indicated it won't participate in mechanical CBS (very low value-add) and would supply only if OEMs prefer hydraulic mechanism (at least in in front)
- New order wins
  - **Suspension (35% of India revenue):** The company has received (1) letter of intent (LoI) for supplies of front forks (~60% share of business as per our estimates) to the Honda *Activa 110 cc* (India's largest selling scooter). Production would begin from FY19 and ramp up fully from FY20; (2) Supply of inverted front forks and mono shock suspension to KTM, Europe, for mid-size motorcycles (~35k units, up 75% YoY)
  - **Transmission (8% of India revenue):** ETL has won new order for supply of CVT (Continuous Variable Transmission) to Hero's scooter production at its Halol plant. Its CVT is also under approval stage with HMSI. Within Bajaj Auto (where ETL already has high share of transmission), ETL will start supply of paper-based clutch instead of cork-based, which would improve content supplied
- **Top 5 customers** are Bajaj Auto, Fiat Chrysler Group, Honda Motorcycle (HMSI), Royal Enfield (RE), and Daimler (in that order). Consolidated share of Bajaj stood at 35% (vs. 39% YoY)

Exhibit 1: Results update

Standalone (Rs mn)	Dec-17	Dec-16	YoY (%)	Sep-17	QoQ (%)	FY18E	FY17	YoY (%)
Net Sales	**11,169**	**8,929**	**25.1**	**11,760**	**(5.0)**	**18,509**	**17,082**	**8.4**
- Raw Material	7,222	5,662	27.6	7,701	(6.2)	8,015	7,480	7.1
(% of Net Sales)	64.7	63.4	125	65.5	(82)	43.3	43.8	(49)
- Staff Expenditure	615	603	2.1	636	(3.2)	3,397	3,033	12.0
(% of Net Sales)	5.5	6.7	(124)	5.4	10.1	18.4	17.8	59.7
- Other Expenditure	1,890	1,622	16.5	1,917	(1.4)	3,955	3,725	6.2
(% of Net Sales)	16.9	18.2	(125)	16.3	62.1	21.4	21.8	(43.6)
Total Expenditure	9,728	7,887	23.3	10,254	(5.1)	15,367	14,238	7.9
EBITDA	**1,441**	**1,042**	**38.3**	**1,507**	**(4.3)**	**3,142**	**2,844**	**10.5**
EBITDA Margin (%)	**12.9**	**11.7**	**123**	**12.8**	**10**	**17.0**	**16.6**	**32.8**
Depreciation	432	418	3.2	403	7.2	1,427	1,236	15.4
EBIT	**1,010**	**624**	**61.8**	**1,104**	**(8.5)**	**1,715**	**1,607**	**6.7**
Interest	14	51	(72.4)	32	(55.8)	113	144	(21.3)
Other Income	30	27	12.4	41	(27.4)	213	194	10.0
Exceptional Items	-269	0	-	0	-	0	0	-
PBT	**996**	**573**	**73.8**	**1,072**	**(7.1)**	**1,815**	**1,657**	**9.5**
Tax	269	128	110.1	383	(29.7)	599	570	5.2
Tax rate (%)	27.0	22.4	468	35.7	(866)	33.0	34.4	(137.1)
Reported PAT	**487**	**472**	**3.4**	**731**	**(33.3)**	**1,216**	**1,087**	**11.8**
Adjusted PAT	**756**	**472**	**60.4**	**731**	**3.5**	**1,216**	**1,087**	**11.8**
Adjusted EPS (Rs)	5.4	3.4	60.4	5.2	3.5	5.2	4.7	11.8

Source: Company, Axis Capital

Exhibit 2: Results update

Subsidary (Rs mn)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	YoY (%)	QoQ (%)
Net Sales	**4,274**	**4,208**	**4,744**	**4,444**	**4,640**	**8.6**	**4.4**
- Raw Material	1,974	1,843	2,154	1,909	1,853	(6.1)	(2.9)
(% of Net Sales)	46.2	43.8	45.4	43.0	39.9	(625)	(301)
- Staff Expenditure	781	714	826	755	851	8.9	12.7
(% of Net Sales)	18.3	17.0	17.4	17.0	18.3	6	135
- Other Expenditure	791	885	988	995	1,148	45.1	15.4
(% of Net Sales)	18.5	21.0	20.8	22.4	24.7	623	235
Total Expenditure	3,547	3,442	3,967	3,659	3,852	8.6	5.3
EBITDA	**727**	**766**	**776**	**785**	**788**	**8.4**	**0.3**
EBITDA Margin (%)	**17.0**	**18.2**	**16.4**	**17.7**	**17.0**	**(3)**	**(69)**
Depreciation	322	335	334	366	366	13.6	0.1
EBIT	**404**	**431**	**442**	**419**	**421**	**4.2**	**0.5**
Interest	37	22	28	37	33	(10.8)	(10.4)
Other Income	46	77	16	21	54	16.6	158.7
Exceptional Items	0	0	0	0	0	-	-
PBT	**368**	**409**	**414**	**383**	**389**	**5.7**	**1.5**
Tax	142	175	144	138	148	3.8	7.4
Tax rate (%)	38.8	42.8	34.8	36.0	38.0	(72)	208
Reported PAT	**272**	**311**	**286**	**266**	**295**	**8.6**	**10.9**
Adjusted PAT	**272**	**311**	**286**	**266**	**295**	**8.6**	**10.9**
Adjusted EPS (Rs)	1.9	2.2	2.0	1.9	2.1	8.6	10.9

Source: Company, Axis Capital

Exhibit 3: Results update

Consolidated (Rs mn)	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	YoY (%)	QoQ (%)
Net Sales	**13,203**	**13,661**	**15,503**	**16,204**	**15,809**	**19.7**	**(2.4)**
- Raw Material	7,637	7,929	9,154	9,610	9,076	18.8	(5.6)
(% of Net Sales)	57.8	58.0	59.0	59.3	57.4	(43)	(189)
- Staff Expenditure	1,384	1,371	1,479	1,391	1,466	6.0	5.4
(% of Net Sales)	10.5	10.0	9.5	8.6	9.3	(121)	69
- Other Expenditure	2,413	2,610	2,734	2,912	3,038	25.9	4.3
(% of Net Sales)	18.3	19.1	17.6	18.0	19.2	94	125
Total Expenditure	11,434	11,910	13,367	13,913	13,580	18.8	(2.4)
EBITDA	**1,769**	**1,751**	**2,136**	**2,292**	**2,229**	**26.0**	**(2.7)**
EBITDA Margin (%)	**13.4**	**12.8**	**13.8**	**14.1**	**14.1**	**70**	**(4)**
Depreciation	741	782	742	769	798	7.7	3.8
EBIT	**1,028**	**970**	**1,394**	**1,523**	**1,431**	**39.2**	**(6.0)**
Interest	88	49	57	69	47	(46.5)	(31.5)
Other Income	73	265	60	62	84	15.1	35.3
Exceptional Items	0	0	47	0	-269	–	-
PBT	**941**	**921**	**1,338**	**1,455**	**1,384**	**47.2**	**(4.8)**
Tax	271	351	479	520	417	54.1	(19.9)
Tax rate (%)	28.8	38.1	35.8	35.8	30.1	136	(564)
Reported PAT	**743**	**835**	**965**	**997**	**782**	**5.3**	**(21.5)**
Adjusted PAT	**743**	**835**	**918**	**997**	**1,051**	**41.5**	**5.5**
Adjusted EPS (Rs)	5.3	5.9	6.5	7.1	7.5	41.5	5.5

Source: Company, Axis Capital

Exhibit 4: Sensitivity analysis

FY19 EPS		Consol revenue growth				
		14%	16%	18%	20%	22%
Consol EBITDA margin	12.3%	28.3	29.0	29.7	30.5	31.2
	13.3%	31.7	32.5	33.3	34.1	34.9
	14.3%	35.1	36.0	**36.8**	37.7	38.5
	13.5%	32.5	33.3	34.1	34.9	35.7
	14.5%	35.9	36.8	37.6	38.5	39.4

Source: Company, Axis Capital

Exhibit 5: Sensitivity analysis

FY20 EPS		Consol revenue growth				
		25%	28%	31%	34%	37%
Consol EBITDA margin	12.4%	40.3	41.6	42.9	44.2	45.6
	13.4%	44.7	46.1	47.5	49.0	50.4
	14.4%	49.1	50.6	**52.2**	53.7	55.2
	13.5%	45.1	46.6	48.0	49.4	50.9
	14.5%	49.5	51.1	52.6	54.2	55.7

Source: Company, Axis Capital

We assume ETL's India revenue to outperform the industry growth as it (1) gains market share with Hero/ Honda 2Ws; (2) introduces new products (ABS/CBS)/ increases content supplied to existing OEMs; (3) content increase within segments. For Europe, we assume growth backed by a strong order book and new plant in Germany

Exhibit 6: Sensitivity analysis

FY20 EPS		Consol revenue growth				
		25%	28%	31%	34%	37%
Consol EBITDA margin	12.4%	40.3	41.6	42.9	44.2	45.6
	13.4%	44.7	46.1	47.5	49.0	50.4
	14.4%	49.1	50.6	**52.2**	53.7	55.2
	13.5%	45.1	46.6	48.0	49.4	50.9
	14.5%	49.5	51.1	52.6	54.2	55.7

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Net sales	54,639	62,040	73,031	95,582
Other operating income	1,100	1,256	1,435	1,640
Total operating income	**55,739**	**63,296**	**74,466**	**97,222**
Cost of goods sold	(32,280)	(36,454)	(43,133)	(57,553)
Gross profit	23,459	26,842	31,333	39,669
Gross margin (%)	*42.9*	*43.3*	*42.9*	*41.5*
Total operating expenses	(16,066)	(17,956)	(20,705)	(25,665)
EBITDA	**7,393**	**8,886**	**10,628**	**14,004**
EBITDA margin (%)	*13.5*	*14.3*	*14.6*	*14.7*
Depreciation	(2,905)	(3,115)	(3,336)	(3,604)
EBIT	**4,488**	**5,771**	**7,292**	**10,399**
Net interest	(323)	(213)	(165)	(129)
Other income	481	535	604	683
Profit before tax	**4,646**	**6,093**	**7,731**	**10,954**
Total taxation	(1,343)	(2,011)	(2,551)	(3,615)
Tax rate (%)	*28.9*	*33.0*	*33.0*	*33.0*
Profit after tax	3,303	4,082	5,180	7,339
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	3,303	4,082	5,180	7,339
Adj. PAT margin (%)	*6.0*	*6.6*	*7.1*	*7.7*
Net non-recurring items	-	-	-	-
Reported net profit	3,303	4,082	5,180	7,339

Balance sheet (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Paid-up capital	1,407	1,407	1,407	1,407
Reserves & surplus	15,887	19,475	24,079	30,760
Net worth	17,293	20,882	25,486	32,167
Borrowing	6,793	5,019	3,953	3,116
Other non-current liabilities	(182)	(182)	(182)	(182)
Total liabilities	**23,905**	**25,720**	**29,257**	**35,101**
Gross fixed assets	20,052	24,002	27,702	31,402
Less: Depreciation	(5,070)	(8,184)	(11,520)	(15,125)
Net fixed assets	14,982	15,817	16,181	16,277
Add: Capital WIP	438	438	438	438
Total fixed assets	15,420	16,256	16,620	16,715
Total Investment	327	525	1,774	3,397
Inventory	4,438	5,144	5,973	7,571
Debtors	7,609	7,743	9,040	11,611
Cash & bank	2,199	2,977	4,010	6,275
Loans & advances	-	-	-	-
Current liabilities	11,005	12,198	13,824	16,563
Net current assets	6,802	7,584	9,509	13,634
Other non-current assets	1,355	1,355	1,355	1,355
Total assets	**23,905**	**25,720**	**29,257**	**35,101**

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY17	FY18E	FY19E	FY20E
Profit before tax	4,646	6,093	7,731	10,954
Depreciation & Amortisation	2,905	3,115	3,336	3,604
Chg in working capital	*(890)*	*(4)*	*(891)*	*(1,861)*
Cash flow from operations	5,410	6,871	7,185	8,528
Capital expenditure	*(3,804)*	*(3,950)*	*(3,700)*	*(3,700)*
Cash flow from investing	(3,607)	(3,613)	(4,344)	(4,640)
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	*(900)*	*(1,774)*	*(1,066)*	*(837)*
Dividend paid	-	-	-	-
Cash flow from financing	(1,262)	(2,480)	(1,807)	(1,624)
Net chg in cash	541	777	1,034	2,264

Key ratios

Y/E March	FY17	FY18E	FY19E	FY20E
OPERATIONAL				
FDEPS (Rs)	23.5	29.0	36.8	52.2
CEPS (Rs)	44.1	51.2	60.5	77.8
DPS (Rs)	2.5	3.0	3.5	4.0
Dividend payout ratio (%)	10.6	10.3	9.5	7.7
GROWTH				
Net sales (%)	6.6	13.5	17.7	30.9
EBITDA (%)	8.8	20.2	19.6	31.8
Adj net profit (%)	10.3	23.6	26.9	41.7
FDEPS (%)	10.3	23.6	26.9	41.7
PERFORMANCE				
RoE (%)	20.8	21.4	22.3	25.5
RoCE (%)	21.4	25.4	28.7	34.4
EFFICIENCY				
Asset turnover (x)	2.6	2.8	3.2	3.9
Sales/ total assets (x)	1.6	1.7	1.8	2.0
Working capital/ sales (x)	0.1	0.1	0.1	0.1
Receivable days	50.8	45.6	45.2	44.3
Inventory days	33.5	34.5	34.2	33.2
Payable days	65.2	64.6	63.0	59.3
FINANCIAL STABILITY				
Total debt/ equity (x)	0.4	0.3	0.2	0.1
Net debt/ equity (x)	0.3	0.1	(0.1)	(0.2)
Current ratio (x)	1.6	1.6	1.7	1.8
Interest cover (x)	13.9	27.1	44.1	80.9
VALUATION				
PE (x)	52.6	42.6	33.5	23.7
EV/ EBITDA (x)	24.1	19.7	16.2	11.9
EV/ Net sales (x)	3.3	2.8	2.4	1.7
PB (x)	10.0	8.3	6.8	5.4
Dividend yield (%)	0.2	0.2	0.3	0.3
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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