

# ENDURANCE TECHNOLOGIES LIMITED | Auto Component

# LKP

## New order wins and products to drive growth

Endurance Technologies (Endurance) reported consolidated revenues of ₹20.8 bn, a 10% qoq growth led largely by price hikes taken in the European business. EBITDA margins grew 160 bps qoq to 12.4% led by 12.7% margins in domestic business and 11.5% margins in the European business. Both the margins surprised the street positively. The EBITDA beat was due to lower than expected RM cost to sales ratio (66.7% v/s 68% qoq in the standalone operations). In the India business, revenues dropped 3% yoy to ₹15.5 bn, however, the company continued to outperform the underlying industry as 2W production declined ~21% yoy in 4QFY22 v/s a revenue decline of 3% yoy for Endurance. Adj. PAT dipped 27% yoy to ₹1.36 bn.

As far as the EU business is concerned, revenues dipped 2% yoy to ₹5.2bn in 4QFY22 as they were adversely impacted by the semiconductor shortage. EBITDA margin contracted 640bps yoy to 11.5% due to high power costs, which was still above street's expectations as higher-than-estimated RM cost was more than offset by operating leverage benefits. Adjusted PAT declined 55.5% yoy to ₹214 mn in the quarter. For FY22, revenue grew 4% YoY but EBITDA/Adj. PAT declined 24%/38% yoy, respectively. The Board declared a final dividend of ₹6.25/share for FY22.

### Healthy order book remains the key

The standalone business has won orders worth ₹7.4 bn in FY2022. The company has also received quotes worth ₹20.8 bn with various OEMs in India. New order wins include (1) ₹1.6 bn worth of orders from EV OEMs (₹530 from Ather Energy and ₹700 mn from Polarity Smart Bikes) for braking and suspension business, (2) ₹1.2 bn for providing casting products to gensets and telecom companies, (3) ₹1.4 bn worth of orders from TVS Motors for alloy wheels (will commence supply from June 2022) and (4) new order wins for its new product segment – Drive Shafts.

In European operations, the company won orders worth EUR71.2 mn (including EUR40.5 mn worth of orders for transmission housing used in mild hybrids and full hybrids) mainly from Porsche, VW, Stellantis and New Holland during the year gone-by.

The company will focus on developing value added products, which include brake and clutch assembly for 200cc+ motorcycles along with ABS, paper based clutches, inverted front forks and fully machined & semi-finished castings.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales (Rs bn)	65.5	75.5	91.2	103.5
EBITDA margins (%)	15.9%	12.8%	13.6%	14.8%
PAT margins (%)	7.9%	6.1%	7.1%	7.9%
EPS (Rs)	37.0	35.0	46.1	58.4
P/E (x)	34.3	39.6	28.1	22.2
PEG (x)	-5.6	-5.4	0.9	0.8
P/BV (x)	5.1	4.7	4.1	3.6
EV/EBITDA (x)	17.4	18.7	14.4	11.5
ROE (%)	14.6%	11.8%	14.6%	16.1%
ROCE (%)	15.9%	13.9%	17.0%	18.9%

Rating	BUY
Current Market Price (₹)	1,296
12 M Price Target (₹)	1,637
Potential upside (%)	26

### Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	182
Free Float Market Cap (₹ bn) :	44
52-Week High / Low (₹) :	1,047 / 1,989
2-Year High / Low (₹) :	1,047 / 635
1 Yr Avg. Dly Traded Volume (in lakh)	1.42
BSE Code / NSE Symbol	ENDURANCE / 540153
Bloomberg :	ENDU IN

### Shareholding Pattern

(%)	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	75.00	75.00	75.00	75.00
FPIs	7.22	7.82	8.03	8.34
MFs	8.25	8.23	8.56	9.40
Insurance	7.62	6.94	6.34	5.59
Others	1.91	2.01	2.07	1.67

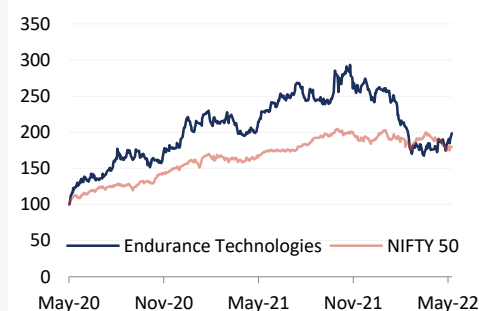
Source: BSE

### Price Performance

(%)	1M	3M	6M	1YR
Endurance	10.1%	-4.7%	-24.5%	-7.3%
Nifty 50	-5.6%	-5.0%	-7.4%	6.8%

\* To date / current date : May 23 2022

### Endurance vs Nifty 50



The company commenced ABS supplies to Bajaj Auto & Royal Enfield and expects to reach its peak annual capacity of 400,000 units by September 2022 (currently production is impacted by chip shortage). The company is in advanced talks with HMCL for Continuous Variable Transmission (CVT) and expects to start supply from 4QFY23 onwards. The company is also looking to supply suspension and braking solutions for e-bicycle business. Such a strong portfolio of orders will surely ensure strong growth for the company in ensuing years.

#### **Acquisition of Maxwell to provide new stream of revenues**

The company has entered into a definitive agreement to acquire 100% of equity share capital in Maxwell Energy Systems Private Limited in a phased manner. The total consideration for the acquisition is up to ₹3.1 bn. Subject to customary closing adjustments and fulfilment of conditions precedent, the company plans to invest ₹1.4 bn for acquisition of 51% stake in Maxwell, which is planned during 1QFY23. The balance 49% shall be purchased in a phased manner in five tranches, spread over the next five years with maximum consideration of ₹1.7 bn. Maxwell is in the business of embedded electronics, particularly in Battery Management Systems (BMS) for vehicles including electric vehicles and for stationary storage systems. The company is also focusing on other key products which include telematics and controllers. In terms of segments, the company will be focusing on electric 2W/3W OEMs, stationary applications for industrial machinery and electric bicycles. Also, the company is developing high voltage BMS solutions for passenger vehicles and buses segments. The company expects to clock in revenues of ₹400 mn in FY2023E. Maxwell's order book is worth of ₹1.5 bn; 80% of which is from India and balance 20% is outside of India. Key customers of the company includes Electric Motion in France, Ray Electric in Spain, one of largest 2W OEMs based out of India and top five battery pack makers within India.

#### **Other key conference call highlights-**

1. Waluj plant operation commenced: Driveshaft plant in Waluj, Aurangabad, has started operations and supplies to Bajaj should begin in the coming month. It is also developing driveshafts for Mahindra's Alpha e-3W.
2. New capacities: Alloy wheel capacities expansion in Chakan from 240k/month to 320k/month; the plant will start operations in May-22 and supplies will begin from Jun-22
3. In FY22, Endurance has started supplying ABS to Bajaj and RE. It expects to ramp up supplies to 400kunits p.a. by Mar-23, as chip supplies improves.
4. Aftermarket segment revenues increased by 35% yoy to ₹4.2 bn in FY2022. Export revenues stood at ₹2 bn in FY2022. The company is targeting to add four more countries in export segment in FY2023E. The company has a target to reach 10% of the total revenues in automotive aftermarket division.
5. In Europe, energy cost inflation had negative impact of EUR6.4 mn and RM pressures had negative impact of EUR15 mn in FY2022. The company was able to recover the complete RM inflation from its customers; however was able to only recover 5% of energy cost inflation (from BMW) during the fiscal.
6. European OEM mix in FY2022 – 28% from Stellantis, 26% from Volkswagen, 18% from Daimler, 5% from BMW and rest from other OEMs.
7. The company derived revenues of ₹1.4 bn from Hyundai-Kia in FY2022 (part of standalone operations). The company has won orders worth ₹2.4 bn from Hyundai-Kia.

## Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY22	Q3 FY21	% qoq	Q4 FY21	% yoy
Net sales	20,788	18,891	10.0%	21,329	-2.5%
Raw material costs	12,554	11,482	9.3%	12,222	2.7%
Employee costs	1,684	1,669	0.9%	1,934	-13.0%
Other expenses	3,979	3,708	7.3%	3,851	3.3%
EBITDA	2,571	2,032	26.5%	3,322	-22.6%
EBITDA margins (%)	12.4%	10.8%	160 bps	15.6%	(320 bps)
Other income	127	75	69.1%	69	83.8%
Depreciation	981	914	7.4%	1,118	-12.3%
Interest expenses	17	14	21.4%	19	-8.7%
PBT	1,700	1,179	44.1%	2,254	-24.6%
Tax	338	233	45.1%	381	-11.3%
Adj. PAT	1,361	946	43.9%	1,873	-27.3%
Adj EPS (Rs)	9.68	6.73	43.9%	13.32	-27.3%
Exceptional items	315	315	N/A	-	N/A
Reported PAT	1,047	632	65.7%	1,873	-44.1%

Source: Company, LKP Research

## Outlook and Valuation

The quarterly and yearly numbers of Endurance were slightly subdued due to chip shortage and higher RM costs, but we believe the company will continue to outperform the industry led by (1) expectations of improvement in 2W demand over FY23 (after two dismal years), led by strong underlying trends for scooterization and premiumization (2) addition of new and value added products (ABS supply ramp-up over FY23, driveshafts for Bajaj including LCVs and 3Ws, non-automotive castings etc.), (3) ramp-up in EV products (EV order book of ~₹3bn incl. Maxwell) and (5) increasing share of after markets and exports. Furthermore, as chip supply eases in the due course of year, 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 and other supply chain issues. Higher operating leverage stemming from higher demand from 2Ws should lead to better margin performance. The strength in Endurance's business franchisee and experienced management should help the stock to continue commanding premium valuation multiples in comparison to most domestic auto ancillary companies. In the latter, there are only a handful of high-quality, large-scale, multi-product auto component suppliers. Considering Endurance's size and strong market share in its operating segments, the stock should command a premium to its domestic peers. Maintain BUY with a target price of ₹1,637.

## Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Total Revenues</b>	<b>65,470</b>	<b>75,491</b>	<b>91,195</b>	<b>1,03,502</b>
Raw Material Cost	35,705	44,201	52,818	58,839
Employee Cost	6,760	6,944	8,145	9,228
Other Exp	12,601	14,700	17,805	20,130
<b>EBITDA</b>	<b>10,404</b>	<b>9,646</b>	<b>12,427</b>	<b>15,305</b>
<i>EBITDA Margin(%)</i>	<i>15.9%</i>	<i>12.8%</i>	<i>13.6%</i>	<i>14.8%</i>
Other Income	307	410	500	580
<b>Depreciation</b>	<b>3,991</b>	<b>3,817</b>	<b>4,256</b>	<b>4,878</b>
<i>EBIT</i>	<i>6,413</i>	<i>5,829</i>	<i>8,171</i>	<i>10,427</i>
<i>EBIT Margin(%)</i>	<i>9.8%</i>	<i>7.7%</i>	<i>9.0%</i>	<i>10.1%</i>
Interest	138	64	100	130
<b>PBT</b>	<b>6,582</b>	<b>6,176</b>	<b>8,571</b>	<b>10,877</b>
<i>PBT Margin(%)</i>	<i>10.1%</i>	<i>8.2%</i>	<i>9.4%</i>	<i>10.5%</i>
Tax	1,272	1,254	2,089	2,656
<b>PAT</b>	<b>5,310</b>	<b>4,922</b>	<b>6,482</b>	<b>8,221</b>
<i>PAT Margins (%)</i>	<i>8.1%</i>	<i>6.5%</i>	<i>7.1%</i>	<i>7.9%</i>
Exceptional items	112	315	0	0
<b>Adj PAT</b>	<b>5,198</b>	<b>4,607</b>	<b>6,482</b>	<b>8,221</b>
<i>Adj PAT Margins (%)</i>	<i>7.9%</i>	<i>6.1%</i>	<i>7.1%</i>	<i>7.9%</i>

## Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
<b>Per Share Data (Rs)</b>				
Adj. EPS	37.0	35.0	46.1	58.4
CEPS	65.3	59.9	76.3	93.1
BVPS	253.2	278.7	315.6	362.3
DPS	0.0	6.0	9.2	11.7
<b>Growth Ratios(%)</b>				
Total revenues	-5.4%	15.3%	20.8%	13.5%
EBITDA	-8.0%	-7.3%	28.8%	23.2%
PAT	-6.1%	-7.3%	31.7%	26.8%
EPS Growth	-6.1%	-7.3%	31.7%	26.8%
<b>Valuation Ratios (X)</b>				
PE	34.3	39.6	28.1	22.2
P/CEPS	19.8	21.6	17.0	13.9
P/BV	5.1	4.7	4.1	3.6
EV/Sales	2.8	2.4	2.0	1.7
EV/EBITDA	17.4	18.7	14.4	11.5
<b>Operating Ratios (Days)</b>				
Inventory days	62.5	57.9	52.0	50.0
Receivable Days	58.0	46.9	41.0	39.0
Payables day	71.3	60.0	56.0	53.0
Net Debt/Equity (x)	0.10	0.05	0.07	0.07
<b>Profitability Ratios (%)</b>				
ROCE	15.9%	13.9%	17.0%	18.9%
ROE	14.6%	11.8%	14.6%	16.1%
Dividend payout	0.0%	18.3%	20.0%	20.0%

## Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Equity and Liabilities</b>				
Equity Share Capital	1,407	1,407	1,407	1,407
Reserves & Surplus	34,214	37,793	42,979	49,556
<b>Total Network</b>	<b>35,621</b>	<b>39,200</b>	<b>44,385</b>	<b>50,962</b>
Total debt	3,549	1,939	2,939	3,439
Net Deferred Tax	5	6	6	6
Long term provisions	1,065	859	859	859
<b>Current Liab &amp; Prov</b>				
Trade payables	12,782	12,413	13,992	15,029
Short term provisions	543	640	640	640
Other current liabilities	3,906	3,518	3,518	3,518
Total current liab and privs	17,231	16,571	18,149	19,187
<b>Total Equity &amp; Liabilities</b>	<b>57,471</b>	<b>58,575</b>	<b>66,339</b>	<b>74,453</b>
<b>Assets</b>				
Net block	23,509	24,558	28,302	31,423
Capital WIP	930	1,191	1,441	1,741
Other non current assets	1,446	1,743	1,743	1,743
<b>Total fixed assets</b>	<b>28,433</b>	<b>30,083</b>	<b>34,077</b>	<b>37,498</b>
Cash and Bank	5,133	4,026	6,743	10,085
Inventories	6,118	7,011	7,525	8,060
Trade receivables	10,410	9,703	10,244	11,059
Loan, Advances & others	2,947	2,895	2,895	2,895
Other current assets	4,431	4,856	4,856	4,856
<b>Total current Assets</b>	<b>29,039</b>	<b>28,491</b>	<b>32,262</b>	<b>36,955</b>
<b>Total Assets</b>	<b>57,471</b>	<b>58,575</b>	<b>66,339</b>	<b>74,453</b>

## Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	6,468	5,861	8,571	10,877
Depreciation	3,991	3,817	4,256	4,878
Interest	132	57	100	130
Chng in working capital	-2,697	-397	524	-313
Tax paid	-1,738	-1,600	-2,089	-2,656
Other operating activities	58	-323	52	0
<b>Cash flow from operations (a)</b>	<b>6,215</b>	<b>7,415</b>	<b>11,415</b>	<b>12,916</b>
Capital expenditure	-3,750	-5,290	-8,250	-8,300
Chng in investments	0	0	0	0
Other investing activities	27	4	0	0
<b>Cash flow from investing (b)</b>	<b>-5,906</b>	<b>-5,513</b>	<b>-8,250</b>	<b>-8,300</b>
<b>Free cash flow (a+b)</b>	<b>309</b>	<b>1,902</b>	<b>3,165</b>	<b>4,616</b>
Inc/dec in borrowings	-920	-1,837	1,000	500
Dividend paid (incl. tax)	0	-844	-1,296	-1,644
Interest paid	-134	-67	-100	-130
<b>Cash flow from financing (c)</b>	<b>-1,121</b>	<b>-1,117</b>	<b>2,769</b>	<b>3,342</b>
<b>Net chng in cash (a+b+c)</b>	<b>6,212</b>	<b>5,091</b>	<b>3,974</b>	<b>6,743</b>
<b>Closing cash &amp; cash equivalents</b>	<b>5,091</b>	<b>3,974</b>	<b>6,743</b>	<b>10,085</b>

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