

## Multiple triggers in place for 'enduring' growth...

Endurance Technologies (ETL) is the largest aluminium die casting company in India by installed capacity and also a leading (top-two) player by market share in other served products i.e. suspension, braking and transmission. As of FY20, aluminium die casting (ADC; includes 2-W alloy wheels) contributed to ~53% of consolidated sales with suspension, braking, transmission, aftermarket forming ~29%, ~8%, 6%, ~4%, respectively. Total ~71% of revenues came from India, with Europe comprising ~29%. In terms of segments, 2-W formed ~56% of sales while 3-W, 4-W formed ~12%, ~32%, respectively. ETL caters to major OEMs like Bajaj Auto, Honda Motorcycles & Scooters, Royal Enfield in India & Volkswagen, FCA, Daimler in Europe.

### Triggers

#### Play on 2-W premiumisation backed by strong order wins

The company is currently on track to introduce increasing value additive content in all of its core products. Within ADC, ETL continues to move towards more machined content against semi-finished castings. It is the pioneer in inverted front forks (replacing front forks), while in braking ABS supplies are set to commence in Q4FY21E or in early FY22E (currently ETL supplies only CBS; ABS has significantly higher ASPs). Other new products set to contribute in coming years include brakes and clutches for > 200 cc motorcycles and CVT/automatic clutches for scooters. As of FY20, ex-Bajaj new order wins in India stood at ₹ 586 crore while the same in H1FY21 came in at ₹ 362 crore. Similarly, new order wins in Europe stood at €43 million for FY20 and €11 million for H1FY21. The company also has significant capabilities on the EV (including hybrid) side, as evidenced by ~€110 million orders received for the same in Europe over the past two years (peak revenues seen in FY23E). In India, ETL already serves the electric Chetak. ETL is benefiting from increased contribution of newer clients (Hero MotoCorp, TVS, Hyundai, Kia) and import substitution in 2-W alloy wheels. The company is also on the lookout for inorganic opportunities in related product lines (₹ 786 crore cash and liquid investments on books as of FY20).

#### Excellent growth track record; financials in the pink of health

ETL has a history of strong outperformance vis-à-vis base user industries in India as well as Europe (10-year India sales CAGR at ~12% vs. 2-W industry volume CAGR of ~6%; FY15-20 Europe sales CAGR at ~7%), riding on the back of – (i) increasing penetration in existing clients (~80% wallet share with the likes of Bajaj Auto and Royal Enfield), (ii) new client additions (OEMs like TVS Motor, Hyundai and Kia added in recent years), (iii) quick headways into offering multiple products to new clients and (iv) higher value addition e.g. ongoing movement towards machined castings. Consolidated margins have moved to a higher plane of ~15-16% after FY18 vs. ~12-13% clocked till FY17 courtesy presence in multiple product lines, premiumisation of offerings and cost control efforts (plant consolidation, automation in Europe operations, etc). Consequent PAT CAGR over FY11-20 is at ~18%. Accompanied by healthy asset turns and controlled net working capital cycle (average of 2.2x and ~19 days over FY11-20), ETL has consistently clocked ~20% RoCE while being CFO and FCF positive in each of the past 10 years.

### Valuation & Outlook

We believe ETL deserves to command a significant valuation premium relative to much of the India auto ancillary universe on account of its strong future growth prospects, diversified product and client base along with superior financials (net debt-free B/S, RoIC at ~25%). We assign a **BUY** recommendation to the stock, valuing it at ₹ 1,575 i.e. 30x P/E on FY23E EPS.



#### Particulars

Particulars	Amount
Market capitalisation (₹ crore)	19,271
Debt (FY20, ₹ crore)	750
Cash & Inv. (FY20, ₹ crore)	786
EV (₹ crore)	19,235
52 Week High/Low (₹)	1450/ 565
Equity capital (₹ crore)	140.7
Face value (₹)	10.0

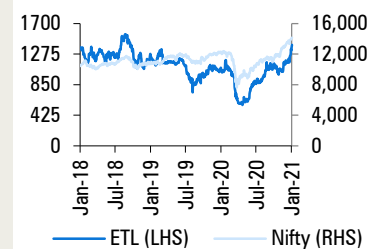
#### Key Highlights

- Strong diversified auto ancillary play on 2-W premiumisation & hybrid/EVs
- Capital efficient business with proven track record of profitable growth

#### Risks to our call

- Slower than anticipated recovery in 2-W sales volume (domestic clients)
- Slow pace of premiumisation (higher cc segment) in 2-W space

#### Price performance



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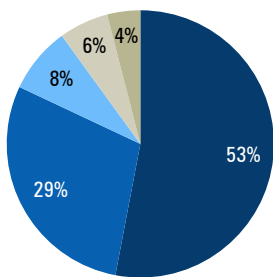
Key Financial Summary

P&L Account (₹ crore)	FY20	FY21E	FY22E	FY23E
Sales	6,917.7	6,015.0	7,518.8	8,646.6
EBITDA	1,130.8	906.0	1,221.8	1,448.3
EBITDA margin (%)	16.3	15.1	16.3	16.8
PAT	565.5	385.2	596.8	737.8
EPS (₹)	40.2	27.4	42.4	52.4
Balance Sheet (₹ crore)				
Equity	140.7	140.7	140.7	140.7
Net Worth	3,006.0	3,333.5	3,840.7	4,430.9
Gross Debt	749.6	649.6	549.6	449.6
Gross Debt: Equity (x)	0.2	0.2	0.1	0.1
Net Debt (Surplus Cash on Books)	(36.2)	(136.4)	(450.4)	(750.4)
Return Ratios (%)				
RoE	18.8	11.6	15.5	16.7
RoCE	20.3	12.6	17.6	19.4
RoIC	26.9	15.7	22.8	26.5
Valuations (x)				
P/E	34.1	50.0	32.3	26.1
EV/EBITDA	17.0	21.1	15.4	12.8
P/B	6.4	5.8	5.0	4.3

Source: Company, ICICI Direct Research

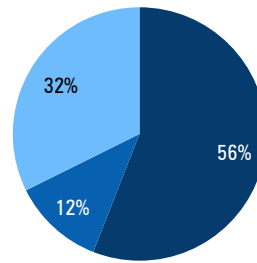
Exhibit 1: Revenue mix (product mix & segment mix)

Product mix (FY20)



■ ADC ■ Suspension ■ Braking ■ Transmission ■ Aftermarket

Segment mix (FY20)

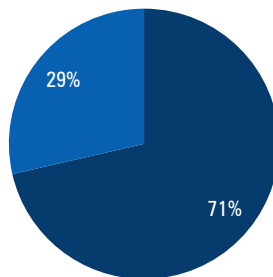


■ 2-W ■ 3-W ■ 4-W

Source: Company, ICICI Direct Research

Exhibit 2: Geographical sales mix

Geographical mix (FY20)

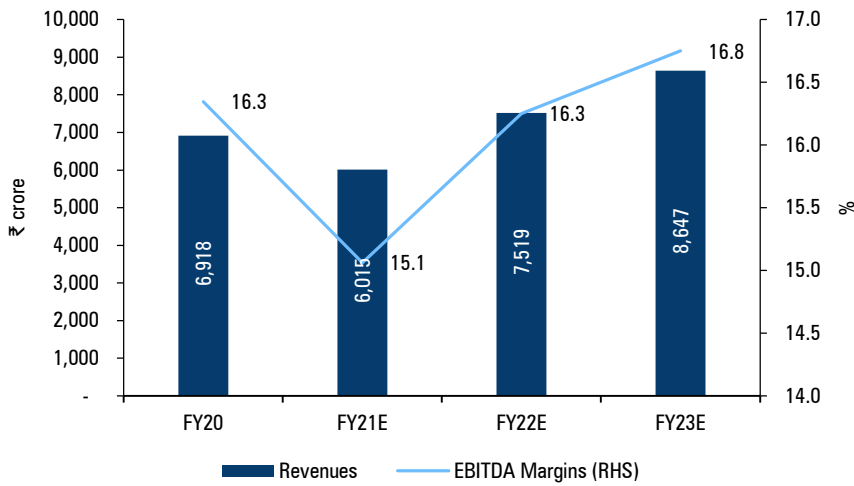


■ India ■ Europe

Source: Company, ICICI Direct Research

## Financial story in charts

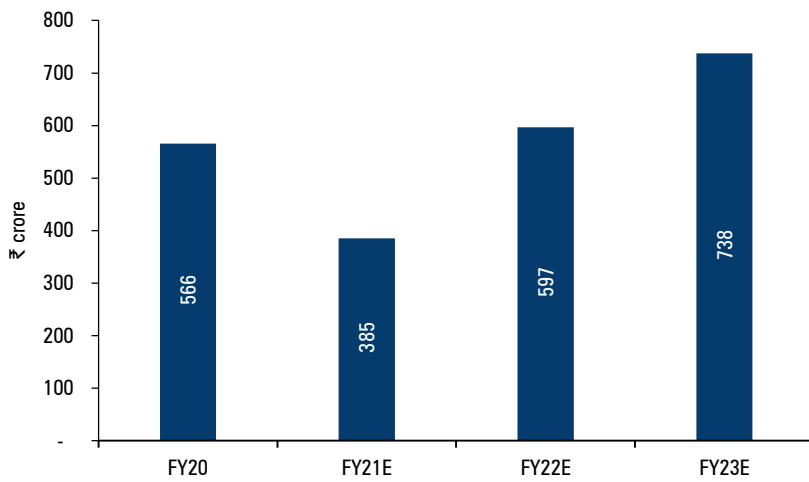
Exhibit 3: Trend in revenues and margins



Revenues are seen growing at 7.7% CAGR over FY20-23E. Margins in the aforesaid period are seen improving to 16.8% by FY23E

Source: Company, ICICI Direct Research

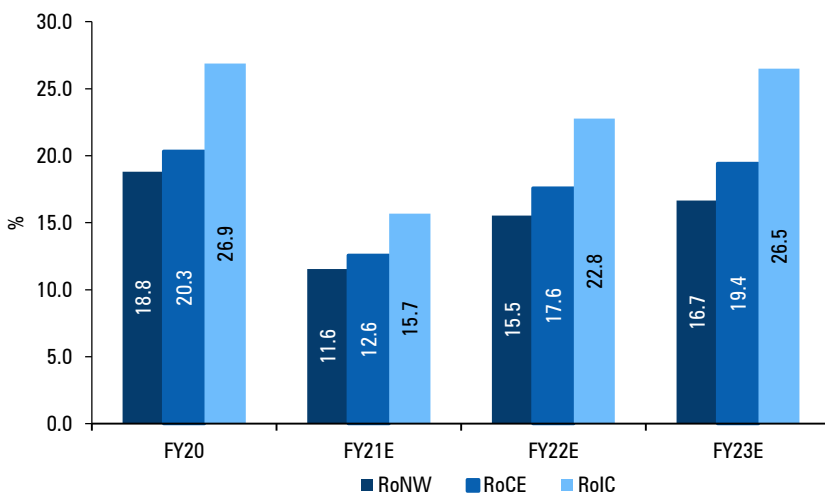
Exhibit 4: Trend in profitability (PAT)



PAT expected to grow at 9.3% CAGR over FY20-23E to ₹ 738 crore in FY23E

Source: Company, ICICI Direct Research

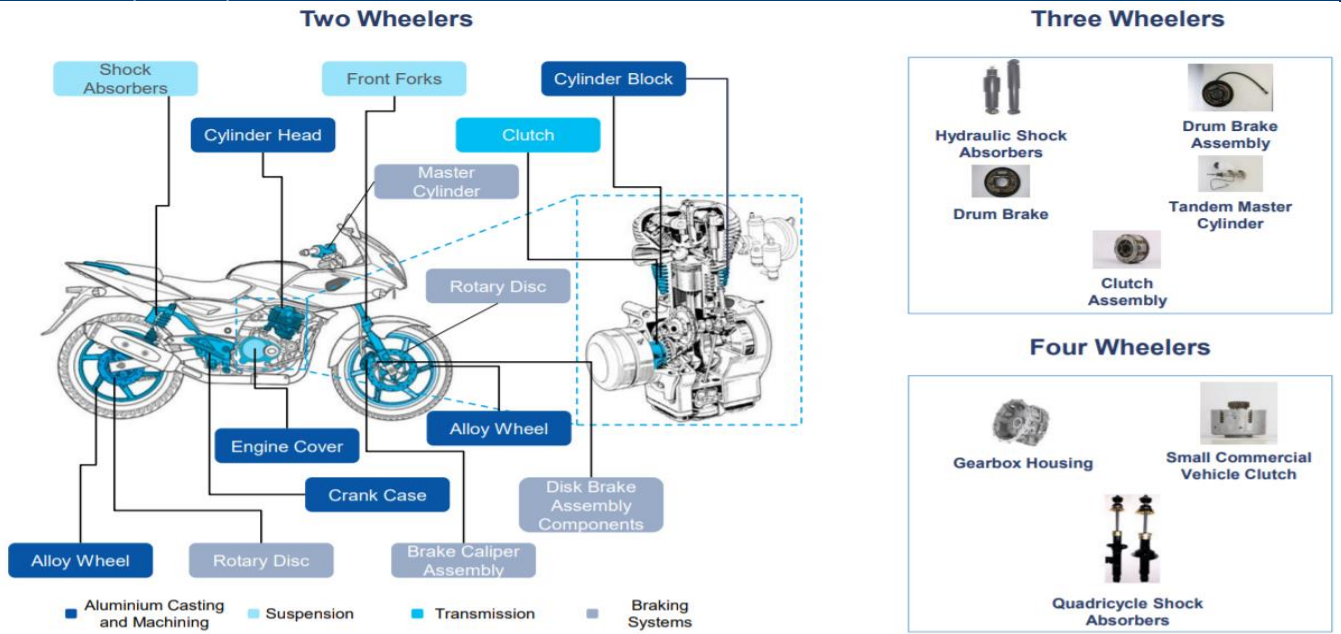
Exhibit 5: Trend in return ratios



Capital efficiency is a USP for ETL with the company consistently clocking higher double digit return ratios in the past. Going forward, we expect ETL to clock ~26% RoIC by FY23E

Source: Company, ICICI Direct Research

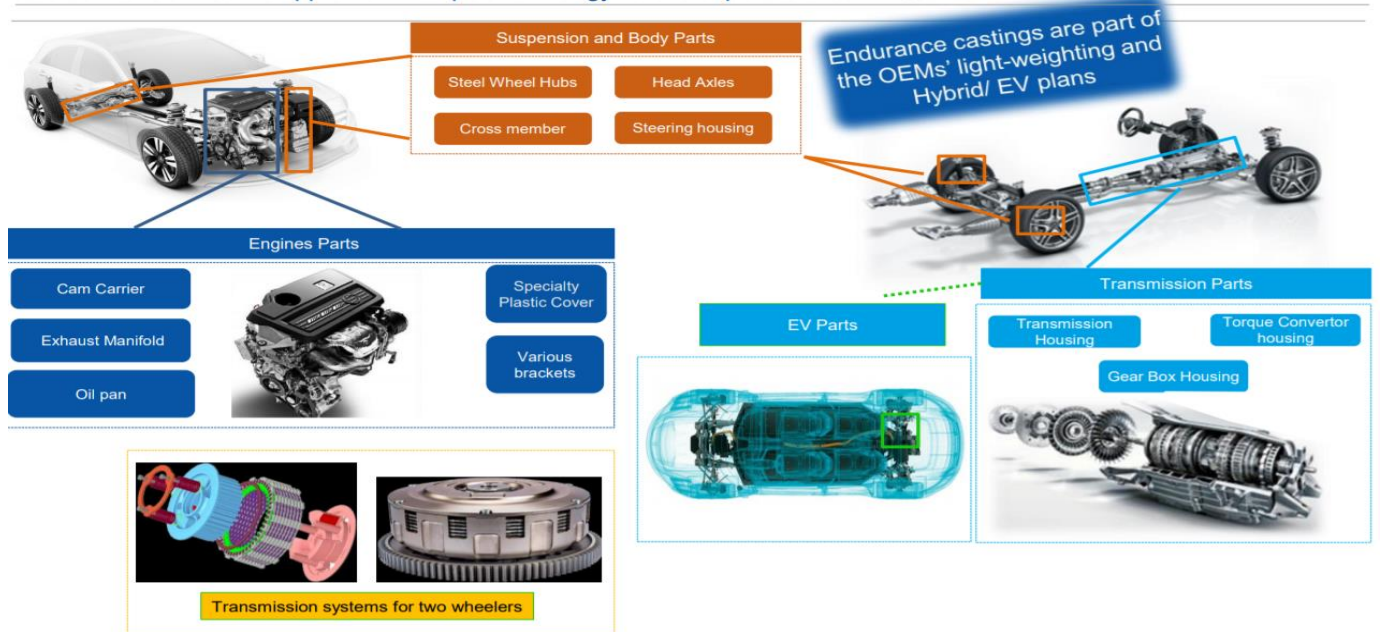
Exhibit 6: India product profile



Source: Company, ICICI Direct Research

Exhibit 7: Europe product profile

Endurance is a Tier 1 Supplier for multiple technology intensive products to 4W OEMs



Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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