

Endurance Technologies

Estimate changes	↔
TP change	↔
Rating change	↔

CMP: INR1,394 TP: INR1,680 (+21%) Buy

Inline; India business recovers

New order wins combined with recovery in EU

- 2QFY23 consolidated performance was led by recovery in India operations, which was diluted by weakness in the EU operations and consolidation of Maxwell Energy. While ENDU has been winning new orders both in the India and EU markets, the recent acquisition of Maxwell opened up new opportunities in the electronic business (BMS, telematics etc.) for EVs.
- We have maintained our FY23 EPS estimates, but raise FY24 EPS estimates to factor in for better-than-expected recovery in 2Ws and new order wins, as well as Maxwell acquisition (loss making). We reiterate our **Buy** rating with a TP of INR1,680 (27x Sep'24E EPS).

India business leads to overall revenue beat

- **Consolidated revenue/EBITDA** grew 25%/4.5% YoY to INR23.6b/INR2.7b while PAT remained flat YoY at INR1.3b. 1HFY23 revenue grew 25%, EBITDA remained flat while PAT declined 5% YoY.
- **India business:** Revenue grew 27% YoY to INR19.05b (est. INR15.2b), as against a production growth of 8% YoY in the underlying 2W industry. EBITDA margins at 12.2% (v/s est 11.8%) declined 200bp YoY due to higher RM costs, partly offset by lower staff costs. Adj. PAT grew 7% YoY to INR1.3b (v/s est ~INR1.15b).
- **EU businesses:** Easing semi-conductor supplies led to 42% YoY growth in PV production in Germany, though EU (including UK) new car registrations declined 0.4% YoY in 2QFY23 on a low base. ENDUs EU business revenues grew 26% in EUR terms (19% growth excluding the benefit of high aluminum prices). EU EBITDA margins declined 230bp YoY to 11.6% (v/s estimated 12.2%) due to higher energy costs (4.4pp impact).
- 1HFY23 CFO declined 37% YoY to INR2.4b due to higher working capital requirement. This in turn led to a decline in FCFF to INR45m (v/s INR1.2b in 1HFY22) with a relatively higher capex of INR2.4b (v/s INR2.6b in 1HFY22).

Highlights from the management commentary

- New orders win (ex BJAUT) in 2QFY23 was at INR2.5b (v/s INR4.4b in 1QFY23), with 80% of order wins in 1H being new businesses and 20% being replacements. This includes EV-related order wins (incl. BJAUT) of ~INR1.1b in 2Q (v/s INR1.1b in 1Q), taking the total EV-related order wins to ~INR4.9b as of Sep-22. Recently, it won INR1.2b orders for EV from Hero Electric for BMS and suspensions.
- Maxwell has ~INR1.75b orders in hand, including a ~INR0.7b recent order from Hero Electric.
- EU business won EUR10.7m new orders in 2QFY23 (v/s EUR14.3m in 1Q)

Bloomberg	ENDU IN
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	196.1 / 2.4
52-Week Range (INR)	1981 / 1048
1, 6, 12 Rel. Per (%)	-3/1/-29
12M Avg Val (INR M)	177

Financials & Valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	75.5	92.1	106.7
EBITDA	9.6	11.1	14.7
Adj. PAT	4.9	5.4	8.1
EPS (Rs)	34.5	38.5	57.8
EPS Growth (%)	-4.1	11.6	50.1
BV/Share (INR)	278.7	305.6	346.0

Ratios

Net Debt/Equity	-0.1	-0.1	-0.2
RoE (%)	13.0	13.2	17.7
RoCE (%)	11.8	12.4	16.6
Payout (%)	31.7	30.5	30.1

Valuations

P/E (x)	40.4	36.2	24.1
P/BV (x)	5.0	4.6	4.0
Div. Yield (%)	0.6	0.7	1.0
FCF Yield (%)	1.1	1.4	2.6

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	75.0	75.0	75.0
DII	16.3	16.7	15.3
FII	6.9	6.4	8.0
Others	1.9	1.9	1.6

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- RM cost benefit would start reflecting from 3QFY23 in both India and EU, as a large part of its RM is Aluminum (51% in India, 100% in EU) and Steel (32% in India. Energy cost was at its peak in 2QFY23, impacting margins severely (440bp). However, going forward, the impact of energy cost should moderate as a) price have corrected substantially from its peak in 2Q), b) customers have agreed for partial pass through from 1st Jan, and c) there is some support from the government.

Valuation and view

- ENDU is the best proxy play for the Indian 2W industry, with scope to increase content, led by technological changes and new products. Coupled with its knowledge of aluminum die-casting in the EU, there is scope to increase contribution from the PV segment.
- The stock trades at 36.2x/24.1x at FY23E/FY24E consolidated EPS. We reiterate our **Buy** rating with a TP of INR1,680 (27x Sep'24E consolidated EPS).

Consolidated - Quarterly

Y/E March	FY22				FY23E				FY22	FY23E	FY23E
INR m	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE
Net Sales	16,937	18,876	18,891	20,788	21,138	23,606	22,987	24,364	75,491	92,095	21,900
YoY Change (%)	180.8	8.3	-7.4	-2.5	24.8	25.1	21.7	17.2	15.8	22.0	16.0
RM Cost (% of sales)	53.8	58.6	60.8	60.4	60.4	62.3	60.2	59.1	58.6	60.5	60.5
Staff Cost (% of sales)	11.5	8.7	8.8	8.1	8.8	7.4	7.8	8.2	9.2	8.0	8.5
Other Exp. (% of sales)	20.3	18.9	19.6	19.1	19.4	18.8	18.4	19.7	19.5	19.4	18.7
EBITDA	2,443	2,600	2,032	2,571	2,398	2,716	2,791	3,193	9,646	11,098	2,608
Margins (%)	14.4	13.8	10.8	12.4	11.3	11.5	12.1	13.1	12.8	12.1	11.9
Depreciation	983	940	914	981	991	993	1,055	1,087	3,817	4,126	1,010
Interest	15	18	14	17	19	61	60	57	64	197	14
Other Income	127	82	75	127	47	84	110	131	410	372	110
PBT before EO expense	1,573	1,724	1,179	1,700	1,434	1,747	1,786	2,181	6,176	7,148	1,694
Exceptional Item	315	0	0	0	103	0	0	0	315	103	0
PBT after EO	1,258	1,724	1,179	1,700	1,331	1,747	1,786	2,181	5,861	7,045	1,694
Eff. Tax Rate (%)	23.3	22.7	19.8	19.9	22.3	24.7	25.2	24.0	21.4	24.2	25.0
Rep. PAT	966	1,333	946	1,362	1,034	1,315	1,336	1,657	4,608	5,341	1,271
Adj. PAT	1,213	1,333	946	1,362	1,112	1,315	1,336	1,657	4,855	5,419	1,271
YoY Change (%)	-587.0	-7.9	-52.5	-27.3	-8.3	-1.4	41.1	21.7	-4.1	11.6	-4.7

Standalone Performance

Y/E March	FY22				FY23E				FY22	FY23E	2QE
INR m	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			
Net Sales	11,520	15,012	14,895	15,544	16,161	19,054	17,874	18,820	56,971	71,909	17,264
YoY Change (%)	223.4	19.0	-2.6	-2.8	40.3	26.9	20.0	21.1	20.1	26.2	15.0
RM Cost (% of sales)	63.6	65.0	68.0	66.7	67.7	67.4	66.9	66.4	66.0	67.1	67.0
Staff Cost (% of sales)	6.7	4.7	4.8	4.6	5.1	4.1	4.5	4.3	5.1	4.5	4.9
Other Expenses (% of sales)	16.4	16.1	16.1	16.1	16.4	16.3	16.2	16.0	16.1	16.2	16.3
Total Expenditure	9,982	12,887	13,240	13,576	14,419	16,736	15,654	16,314	49,684	63,122	15,221
EBITDA	1,538	2,125	1,655	1,968	1,742	2,319	2,220	2,506	7,287	8,786	2,042
Margins (%)	13.4	14.2	11.1	12.7	10.8	12.2	12.4	13.3	12.8	12.2	11.8
Depreciation	502	513	504	519	571	595	605	607	2,037	2,378	560
Interest	3	5	6	4	8	14	10	7	18	38	4
Other Income	58	45	44	96	40	59	80	91	244	270	60
PBT before EO expense	1,091	1,651	1,190	1,542	1,203	1,769	1,685	1,984	5,475	6,640	1,538
Tax Rate (%)	26.9	25.9	26.2	25.6	26.5	25.8	25.3	23.9	26.0	25.2	25.0
Reported PAT	568	1,224	878	1,147	809	1,313	1,259	1,509	3,817	4,890	1,154
Adj. PAT	801	1,224	878	1,147	886	1,313	1,259	1,509	4,050	4,967	1,154
YoY Change (%)	-351.3	7.8	-44.7	-17.5	10.7	7.3	43.4	31.5	6.7	22.6	-5.7

EU Subs (Derived)

Y/E March	FY22				FY23E				FY22	FY23E
EUR m	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	62	45	48	63	61	57	62	67	218	247
YoY Change (%)			-15.5	2.0	-1.9	25.8	30.3	7.1	5.1	13.5
EBITDA	11.3	6.3	5.2	7.9	8.4	6.6	7.8	9.1	30.7	31.8
Margins (%)	18.1	13.9	10.9	12.6	13.7	11.6	12.5	13.5	14.1	12.9
PAT	4.7	1.6	1.1	2.7	2.9	1.7	2.5	3.4	10.1	10.5
YoY Change (%)			-71.1	-50.9	-38.3	6.3	127.7	26.5	-30.8	4.2

E: MOFSL Estimates

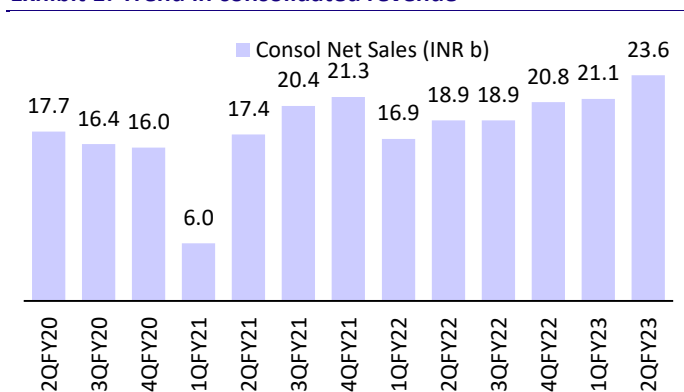
**Highlights from the management commentary****India business**

- New orders win (ex BJAUT) in 2QFY23 was at INR2.5b (v/s INR4.4b in 1QFY23), with 80% of order wins in 1H being new businesses and 20% being replacements. This includes EV-related order wins (incl. BJAUT) of ~INR1.1b in 2Q (v/s INR1.1b in 1Q), taking the total EV-related order wins to ~INR4.9b as of Sep-22. Recently, it won INR1.2b orders for EV from Hero Electric for BMS and suspensions.
- Maxwell has ~INR1.75b orders in hand, including a ~INR0.7b recent order from Hero Electric.
- ABS: It is currently producing 28-30k/month single-channel ABS for Bajaj and RE, with further capacity addition by 1QFY24/3QFY24, taking the total annual capacity to 600k/1.2m p.a. It is also in the process of clearing dual channel ABS by the end of CY22.
- Exports from India declined 8.4% to INR804.9m, adversely impacted by lower sales on aluminum die-casting to EU players.
- Maxwell Energy: It would gradually increase its stake in Maxwell from its current 51% to 100% over five tranches over the next five years, with consideration linked to the financial targets. Maxwell is getting lots of interest from OEMs who used Chinese BMS as well as from OEMs (such as Ather) looking to shift to external suppliers. The new AIS-156 norms for battery safety augurs well for Maxwell, as its products are designed for the global standards.
- RM cost benefit would start reflecting from 3QFY23 in both India and EU, as a large part of its RM is Aluminum (51% in India, 100% in EU) and Steel (32% in India).
- Higher RM prices contributed 10pp to the standalone revenue growth of 33% in 1HFY23.

EU business

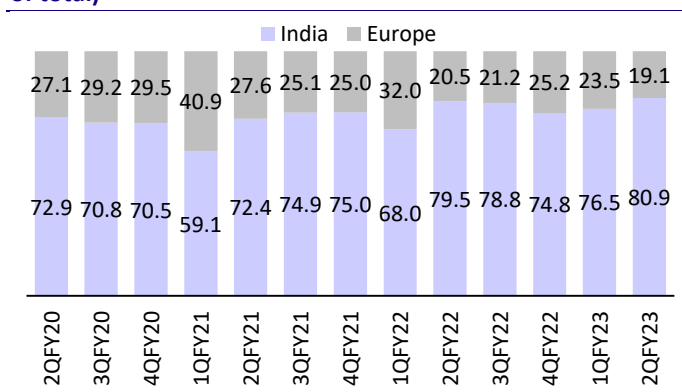
- EU business won EUR10.7m new orders in 2QFY23 (v/s EUR14.3m in 1Q).
- EU business grew ~26% YoY in EUR terms (~19% growth excluding the benefit of RM cost pass through) benefiting from easing of supply side issues, as reflected in 42% YoY growth in PV production in Germany.
- Energy cost was at its peak in 2QFY23, adversely impacting margins (440bp). However, going forward, the impact of energy cost should moderate as a) prices have corrected substantially from their peak in 2Q, b) customers have agreed for a partial pass through from 1st Jan, and c) there is some support from the government.

Exhibit 1: Trend in consolidated revenue



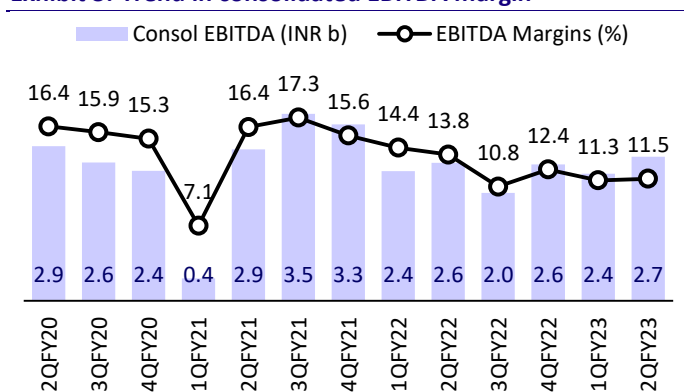
Source: Company, MOFSL

Exhibit 2: Revenue split in India and Europe (as a percentage of total)



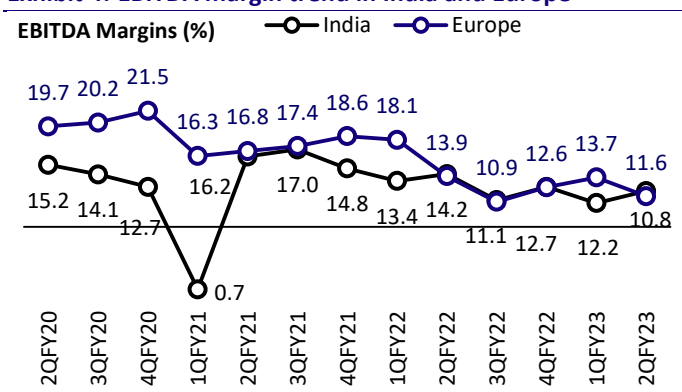
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA margin



Source: Company, MOFSL

Exhibit 4: EBITDA margin trend in India and Europe



Source: Company, MOFSL

Valuation and view

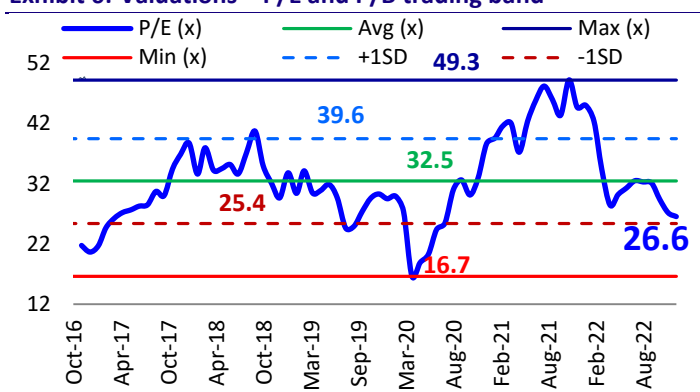
- Given ENDU’s strong positioning in the 2W segment, it is the best proxy to play the India 2W opportunity, keeping in mind the underlying trends of scooterization and premiumization. Driven by new customer wins and technology-led increase in content, we estimate ENDU to outperform the underlying 2W industry in India.
- The company offers strong management, a diverse revenue profile, improving technological content, increasing wallet share of customers, and financial discipline. It is one of the few Auto-Ancillary companies in India to boast of a truly diversified revenue base, both in terms of product lines as well as customer base, but still offers a consistently respectable RoE.
- At the helm is a proven management, as evidenced in the sustained profitable growth while entering new segments and significant market share gains.
- The strength in ENDU’s business franchisee and strong 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 ENDU’s size and strong market share in its operating segments, the stock should command a premium to its domestic peers.
- We have maintained our FY23 EPS estimates, but raise FY24 EPS estimates to factor in for better-than-expected recovery in 2Ws and new order wins, as well as Maxwell acquisition (loss making). We estimate a consolidated revenue/EBITDA/ PAT CAGR of ~16%/21%/25% over FY22-25E, with a scope for a surprise, accruing from the ramp-up in the India PV business as well as content

increase in the Suspension and Braking business. The stock trades at 36.2x/24.1x at FY23/FY24E consolidated EPS. Recovery in underlying 2W demand, improvement in EU business from 2HFY23, and the possibility of new product technology are potential catalysts for the stock. We reiterate our **Buy** rating with a TP of INR1,680 (27x Sep'24E EPS).

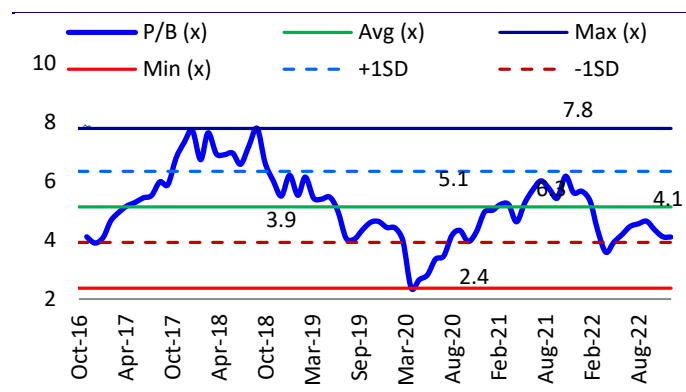
Exhibit 5: Revised estimates (consolidated)

(INR M)	FY23E			FY24E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	92,095	87,913	4.8	1,06,749	99,056	7.8
EBITDA (%)	12.1	12.5	-50bp	13.8	14.2	-40bp
Net Profit	5,419	5,522	-1.9	8,135	7,653	6.3
EPS (INR)	38.5	39.3	-1.9	57.8	54.4	6.3

Exhibit 6: Valuations – P/E and P/B trading band



Source: Bloomberg, MOFSL



Source: Bloomberg, MOFSL

Story in charts

Exhibit 7: Trend in consolidated sales

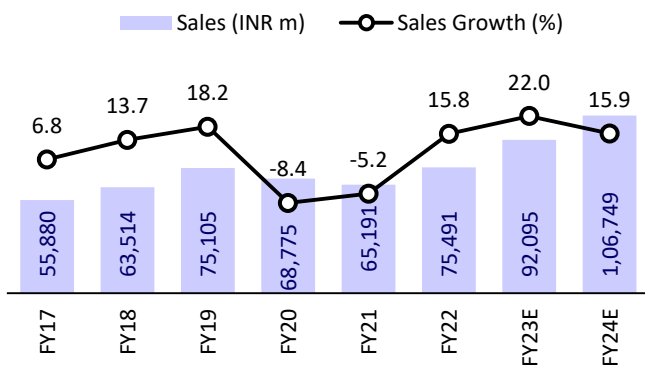


Exhibit 8: Trend in consolidated PAT

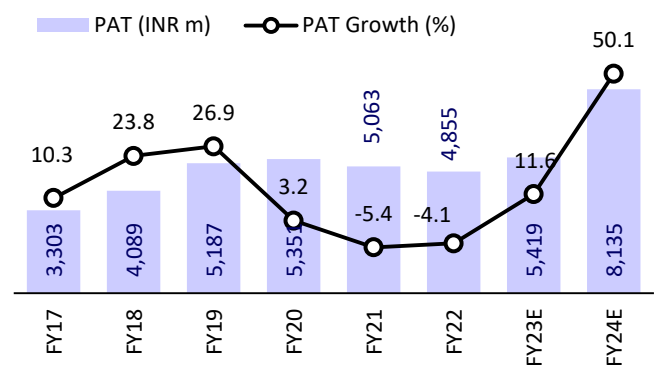


Exhibit 9: Geography-wise sales break-up FY22 (%)

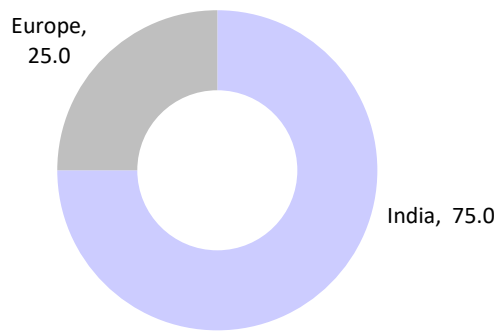


Exhibit 10: Market share in the India business (%)

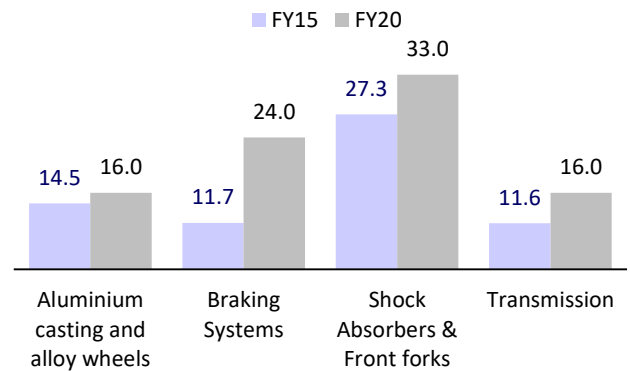


Exhibit 11: Customer-wise break-up (%)

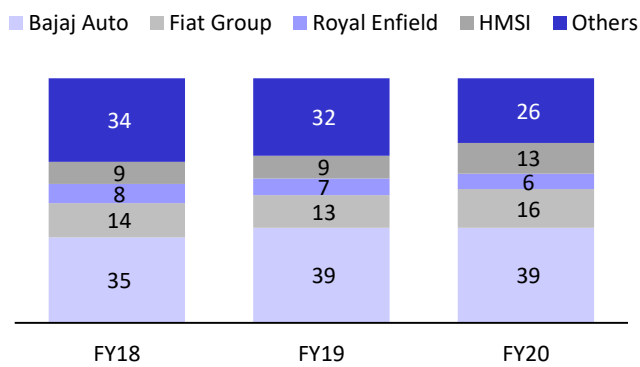
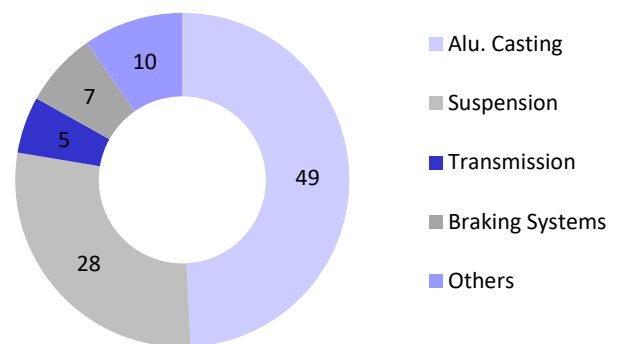


Exhibit 12: Segment-wise break-up (%), FY21 consolidated



Financials and valuations

Consolidated - Income Statement							(INR Million)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Total Income from Operations	63,514	75,105	68,775	65,191	75,491	92,095	1,06,749	1,16,683
Change (%)	13.7	18.2	-8.4	-5.2	15.8	22.0	15.9	9.3
EBITDA	9,279	11,288	10,906	10,123	9,646	11,098	14,715	16,966
Margin (%)	14.6	15.0	15.9	15.5	12.8	12.1	13.8	14.5
Depreciation	3,216	3,762	4,143	3,991	3,817	4,126	4,531	5,010
EBIT	6,063	7,526	6,763	6,131	5,829	6,973	10,184	11,956
Int. and Finance Charges	235	257	175	138	64	197	185	185
Other Income	235	270	476	307	410	372	663	725
PBT bef. EO Exp.	6,062	7,539	7,064	6,301	6,176	7,148	10,662	12,496
EO Items	-269	92	402	167	-315	-103	0	0
PBT after EO Exp.	5,793	7,631	7,465	6,468	5,861	7,045	10,662	12,496
Total Tax	1,886	2,381	1,810	1,272	1,253	1,704	2,527	3,035
Tax Rate (%)	32.6	31.2	24.2	19.7	21.4	24.2	23.7	24.3
Minority Interest	0	0	0	-1	0	0	0	0
Reported PAT	3,908	5,250	5,655	5,197	4,608	5,341	8,135	9,461
Adjusted PAT	4,089	5,187	5,351	5,063	4,855	5,419	8,135	9,461
Change (%)	23.8	26.9	3.2	-5.4	-4.1	11.6	50.1	16.3
Margin (%)	6.4	6.9	7.8	7.8	6.4	5.9	7.6	8.1

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1,407	1,407	1,407	1,407	1,407	1,407	1,407	1,407
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	20,322	24,240	28,654	34,215	37,793	41,582	47,269	53,884
Net Worth	21,729	25,647	30,060	35,621	39,200	42,989	48,676	55,291
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	5,586	5,584	5,482	4,242	3,994	3,994	3,994	3,994
Deferred Tax Liabilities	17	161	79	5	6	6	6	6
Capital Employed	27,332	31,392	35,621	39,868	43,201	46,990	52,677	59,292
Gross Block	25,218	32,159	40,629	44,054	48,000	53,250	59,250	65,250
Less: Accum. Deprn.	8,286	12,048	16,190	19,768	22,610	26,736	31,266	36,276
Net Fixed Assets	16,932	20,112	24,439	24,286	25,390	26,514	27,984	28,974
Goodwill on Consolidation	1,577	1,520	1,624	1,740	1,757	1,757	1,757	1,757
Capital WIP	592	1,178	1,260	962	1,193	1,193	1,193	1,193
Total Investments	459	361	1,660	4,443	4,868	4,868	4,868	4,868
Curr. Assets, Loans&Adv.	23,852	24,690	21,716	26,045	25,368	31,415	38,617	46,265
Inventory	4,939	5,400	5,501	6,118	7,011	8,554	9,914	10,837
Account Receivables	9,688	9,251	6,727	10,410	9,704	11,838	13,722	14,999
Cash and Bank Balance	5,027	5,379	6,209	5,133	4,026	5,379	8,439	13,278
Loans and Advances	4,198	4,660	3,279	4,383	4,627	5,644	6,543	7,151
Curr. Liability & Prov.	16,081	16,468	15,078	17,607	15,375	18,757	21,742	23,765
Account Payables	11,284	11,735	10,662	12,783	12,413	15,144	17,553	19,187
Other Current Liabilities	4,409	3,783	3,305	3,791	2,088	2,547	2,953	3,227
Provisions	388	950	1,111	1,032	874	1,066	1,236	1,351
Net Current Assets	7,771	8,222	6,638	8,438	9,993	12,658	16,875	22,500
Appl. of Funds	27,332	31,392	35,621	39,868	43,201	46,990	52,677	59,292

E: MOFSL Estimates

Financials and valuations

Ratios	(INR Million)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)								
EPS	29.1	36.9	38.0	36.0	34.5	38.5	57.8	67.3
BV/Share	154.5	182.3	213.7	253.2	278.7	305.6	346.0	393.1
DPS	4.0	5.5	9.5	6.0	8.6	9.6	14.5	16.8
Payout (%)	17.3	17.7	28.5	16.2	31.7	30.5	30.1	30.1
Valuation (x)								
P/E	48.0	37.8	36.6	38.7	40.4	36.2	24.1	20.7
P/BV	9.0	7.6	6.5	5.5	5.0	4.6	4.0	3.5
EV/Sales	3.1	2.6	2.8	3.0	2.6	2.1	1.8	1.6
EV/EBITDA	21.2	17.4	17.9	19.3	20.3	17.5	13.0	11.0
Dividend Yield (%)	0.3	0.4	0.7	0.4	0.6	0.7	1.0	1.2
FCF per share	22.4	15.7	33.0	22.0	15.8	20.1	35.8	50.8
Return Ratios (%)								
RoE	21.0	21.9	19.2	15.4	13.0	13.2	17.7	18.2
RoCE	16.5	18.3	16.4	13.7	11.8	12.4	16.6	17.2
RoIC	19.4	22.6	20.1	17.6	14.7	15.4	21.1	23.2
Working Capital Ratios								
Fixed Asset Turnover (x)	2.5	2.3	1.7	1.5	1.6	1.7	1.8	1.8
Asset Turnover (x)	2.3	2.4	1.9	1.6	1.7	2.0	2.0	2.0
Inventory (Days)	28	26	29	34	34	34	34	34
Debtor (Days)	56	45	36	58	47	47	47	47
Creditor (Days)	65	57	57	72	60	60	60	60
Leverage Ratio (x)								
Net Debt/Equity	0.0	0.0	-0.1	-0.1	-0.1	-0.1	-0.2	-0.3

Consolidated - Cash Flow Statement	(INR Million)							
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	5,793	7,331	7,466	6,468	5,861	7,148	10,662	12,496
Depreciation	3,216	3,762	4,143	3,991	3,817	4,126	4,531	5,010
Interest & Finance Charges	215	233	169	132	57	-175	-478	-540
Direct Taxes Paid	-2,095	-2,337	-2,256	-1,739	-1,600	-1,704	-2,527	-3,035
(Inc)/Dec in WC	-18	305	538	-2,695	-398	-1,312	-1,158	-785
CF from Operations	7,111	9,294	10,060	6,157	7,737	8,082	11,030	13,146
Others	310	-310	54	57	-322	0	0	0
CF from Operating incl EO	7,421	8,983	10,114	6,215	7,416	8,082	11,030	13,146
(Inc)/Dec in FA	-4,264	-6,776	-5,472	-3,114	-5,195	-5,250	-6,000	-6,000
Free Cash Flow	3,157	2,207	4,642	3,101	2,220	2,832	5,030	7,146
(Pur)/Sale of Investments	-104	137	-1,243	-2,739	-262	0	0	0
CF from Investments	-4,355	-7,252	-6,706	-5,906	-5,502	-4,878	-5,338	-5,275
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	396	-762	-542	-1,296	-1,838	0	0	0
Interest Paid	-208	-233	-169	-134	-67	-197	-185	-185
Dividend Paid	-423	-678	-1,865	0	-844	-1,631	-2,448	-2,847
CF from Fin. Activity	-236	-1,380	-2,576	-1,384	-3,020	-1,827	-2,632	-3,031
Inc/Dec of Cash	2,830	352	832	-1,076	-1,107	1,377	3,060	4,839
Opening Balance	2,196	5,026	5,377	6,209	5,133	4,026	5,403	8,463
Closing Balance	5,026	5,377	6,209	5,133	4,026	5,403	8,463	13,302

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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