

February 9, 2023

Q3FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,640		1,600	
Sales (Rs. m)	1,03,465	1,13,609	1,05,950	1,14,926
% Chng.	(2.3)	(1.1)		
EBITDA (Rs. m)	13,617	16,882	15,463	17,459
% Chng.	(11.9)	(3.3)		
EPS (Rs.)	51.6	66.9	56.7	66.4
% Chng.	(9.1)	0.8		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	75,491	89,649	1,03,465	1,13,609
EBITDA (Rs. m)	9,646	10,498	13,617	16,882
Margin (%)	12.8	11.7	13.2	14.9
PAT (Rs. m)	4,854	5,032	7,254	9,414
EPS (Rs.)	34.5	35.8	51.6	66.9
Gr. (%)	(8.2)	3.7	44.2	29.8
DPS (Rs.)	6.3	6.0	6.8	6.8
Yield (%)	0.4	0.4	0.5	0.5
RoE (%)	13.0	12.2	15.6	17.5
RoCE (%)	14.0	14.1	17.9	20.4
EV/Sales (x)	2.6	2.1	1.8	1.6
EV/EBITDA (x)	20.0	18.3	13.8	10.7
PE (x)	40.8	39.3	27.3	21.0
P/BV (x)	5.0	4.6	4.0	3.4

Key Data

ENDU.BO | ENDU IN

52-W High / Low	Rs.1,565 / Rs.1,047
Sensex / Nifty	60,806 / 17,893
Market Cap	Rs.198bn / \$ 2,398m
Shares Outstanding	141m
3M Avg. Daily Value	Rs.61.28m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	7.22
Domestic Institution	15.87
Public & Others	1.91
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.2	(3.4)	(3.8)
Relative	3.1	(6.5)	(7.5)

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Endurance Technologies (ENDU IN)

Rating: BUY | CMP: Rs1,407 | TP: Rs1,640

Overseas shine; India to ramp-up

Quick Pointers:

- Won new business worth ~Rs 8.77bn/EUR 60mn for India/Europe in 9HFY23.
- Consolidated EBITDA margin at 11.5% (flat QoQ, PLe: 12%) impacted by weak India performance.

We trim our EPS estimate by 9% for FY24 and cut our EBITDA margin by 140bps, citing recovery to be gradual. Endurance Technologies (ENDU) 3QFY23 consolidated EBITDA margin came in at 11.4% (flat QoQ) vs our estimates of 12%, impacted by weak performance at India operation (revenue -16% QoQ; 2W industry production -18.5% q-q). However, Europe grew 9% QoQ driven by industry growth, government incentives on high energy prices and cost pass-ons. Going ahead, we expect domestic 2W demand to recover, however, situation remains weak in Europe given inflation and high interest rates. Furthermore, ENDU will start production with new capacities (+200k p.a.) for Dual-channel ABS (400k currently) by second half of 1QFY24 (further ramp-up to 1.2mn p.a. by 2HCY24).

We believe ENDU will continue to outperform the industry volume growth given (1) expectations of 2W demand improvement, (2) addition of new and value added products (ABS supply ramp-up over FY24-25, driveshafts, non-automotive castings etc.), (3) ramp-up in EV offering which will contribute to revenue and (4) increasing share of after-markets and exports. Maintain 'BUY' with revised TP of Rs 1,640 (Rs 1,600 earlier 26x Sep-24E) at 26x Dec-24E EPS.

Weak operating performance at India operations: (1) Consolidated: Revenue at Rs 20.9bn declined 11% QoQ, owing to weak performance at India operations. Gross margins at 40.1% improved 240bps QoQ as impact of softening commodity cost kicks in. EBITDA margin at 11.4% was flat QoQ, largely led by higher employee spends at European operations. **(2) India business:** Revenue at Rs 16bn (-16% QoQ) disappointed. EBITDA margin at 11.1% (-100bps QoQ) impacted by negative oplev. **(3) Overseas:** Revenue improved 9.5% QoQ to Rs 4.98bn, as demand improved. EBITDA margin improved 370bps QoQ to 12.4%.

Key takeaways: (1) New order wins accelerates: In 9MFY23, India business won Rs 8.8bn (excl Bajaj) (c45% of total since FY20) worth of orders of which Rs 2.0bn are for EVs – orders included from HMSI, Hero MotoCorp, Ather Energy, Hero Electric, Mahindra, TVS and Tata Motors. Europe business has received EUR 67.4mn worth of orders (EUR 42mn in 1H), of which EUR 25mn with Volkswagen (100% EV project) and EUR 17mn with Stellantis (100% hybrid technology). **(2) EV business gaining traction:** ENDU is setting up its own in-house BMS assembly line - recently won Rs 700mn worth of order for BMS from Hero Electric; supplies to start from 1QFY24. It has also received LOI from Ather for the front fork shock absorber (business value Rs 230mn to start from 1QFY24). **(3) Demand situation to improve:** ENDU's standalone performance could have been better in 3Q, but declined in line with 2W industry production. In 4Q, demand is expected to be better q-q, on seasonality. As ENDU's capacity utilization improves, economies of scale are expected to benefit margins. In Europe, ENDU grew ahead of the industry in 3Q, and gained market share from its competition. Though chip supplies have improved, demand could weaken due to high inflation and interest rates.

Exhibit 1: Q3FY23 Result Overview – Consolidated (Rs mn) – stable margins helped by exports despite q-q fall in revenues

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Revenues	20,952	18,891	10.9	23,606	(11.2)	65,697	54,703	20.1
Raw Materials	12,557	11,482	9.4	14,707	(14.6)	40,038	31,648	26.5
<i>% of Net Sales</i>	<i>59.9</i>	<i>60.8</i>		<i>62.3</i>		<i>60.9</i>	<i>57.9</i>	
Personnel	1,932	1,669	15.8	1,742	10.9	5,545	5,260	5.4
<i>% of Net Sales</i>	<i>9.2</i>	<i>8.8</i>		<i>7.4</i>		<i>8.4</i>	<i>9.6</i>	
Manufacturing & Other Exp	4,068	3,708	9.7	4,441	(8.4)	12,606	10,721	17.6
<i>% of Net Sales</i>	<i>19.4</i>	<i>19.6</i>		<i>18.8</i>		<i>19.2</i>	<i>19.6</i>	
Total Expenditure	18,557	16,859	10.1	20,890	(11.2)	58,188	47,628	22.2
EBITDA	2,395	2,032	17.9	2,716	(11.8)	7,509	7,075	6.1
<i>EBITDA Margin (%)</i>	<i>11.4</i>	<i>10.8</i>		<i>11.5</i>		<i>11.4</i>	<i>12.9</i>	
Depreciation	1,016	914	11.2	993	2.4	3,000	2,836	5.8
EBIT	1,379	1,119	23.3	1,723	(20.0)	4,509	4,239	6.4
Interest Expenses	46	14	227.7	61	(25.0)	126	47	170.7
Non-operating income	115	75	54.0	84	36.5	246	284	(13.2)
Extraordinary items	-	-		-		(103)	(315)	
PBT	1,448	1,179	22.8	1,747	(17.1)	4,526	4,161	8.8
Tax-Total	366	233	57.2	432	(15.2)	1,095	916	19.5
<i>Tax Rate (%) - Total</i>	<i>25.3</i>	<i>19.8</i>	<i>28.0</i>	<i>24.7</i>		<i>24.2</i>	<i>22.0</i>	<i>9.9</i>
Reported PAT	1,082	946	14.4	1,315	(17.7)	3,431	3,245	5.7
Adj. PAT	1,082	946	14.4	1,315	(17.7)	3,509	3,490	0.5
<i>PAT Margin</i>	<i>5.2</i>	<i>5.0</i>		<i>5.6</i>		<i>5.3</i>	<i>6.4</i>	

Source: Company, PL

Exhibit 2: Q3FY23 Result Overview – Standalone (Rs mn) – Gross margins improve; operating leverage impacts EBITDA

Y/e March	3QFY23	3QFY22	YoY gr. (%)	2QFY23	QoQ gr. (%)	9MFY23	9MFY22	YoY gr. (%)
Net Revenues	15,968	14,895	7.2	19,054	(16.2)	51,183	41,427	23.6
Raw Materials	10,640	10,130	5.0	12,845	(17.2)	34,432	27,213	26.5
<i>% of Net Sales</i>	<i>66.6</i>	<i>68.0</i>		<i>67.4</i>		<i>67.3</i>	<i>65.7</i>	
Personnel	790	715	10.5	790	(0.0)	2,401	2,195	9.4
<i>% of Net Sales</i>	<i>4.9</i>	<i>4.8</i>		<i>4.1</i>		<i>4.7</i>	<i>5.3</i>	
Manufacturing & Other Exp	2,761	2,394	15.3	3,100	(10.9)	8,512	6,701	27.0
<i>% of Net Sales</i>	<i>17.3</i>	<i>16.1</i>		<i>16.3</i>		<i>16.6</i>	<i>16.2</i>	
Total Expenditure	14,191	13,240	7.2	16,736	(15.2)	45,345	36,108	25.6
EBITDA	1,777	1,655	7.3	2,319	(23.4)	5,837	5,318	9.8
<i>EBITDA Margin (%)</i>	<i>11.1</i>	<i>11.1</i>		<i>12.2</i>		<i>11.4</i>	<i>12.8</i>	
Depreciation	603	504	19.7	595	1.3	1,769	1,519	16.5
EBIT	1,174	1,152	1.9	1,724	(31.9)	4,068	3,800	7.1
Interest Expenses	13	6	141.5	14	(3.3)	35	14	146.5
Non-operating income	80	44	80.6	59	35.2	179	148	21.1
Extraordinary items	-	-		-		(103)	(315)	
PBT	1,240	1,190	4.2	1,769	(29.9)	4,109	3,619	13.6
Tax-Total	318	312	2.0	456	(30.2)	1,065	948	12.3
<i>Tax Rate (%) - Total</i>	<i>25.6</i>	<i>26.2</i>	<i>(2.1)</i>	<i>25.8</i>		<i>25.9</i>	<i>26.2</i>	<i>(1.1)</i>
Reported PAT	922	878	5.0	1,313	(29.8)	3,044	2,670	14.0
Adj. PAT	922	878	5.0	1,313	(29.8)	3,120	2,902	7.5
<i>PAT Margin</i>	<i>5.8</i>	<i>5.9</i>		<i>6.9</i>		<i>6.1</i>	<i>7.0</i>	

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	75,491	89,649	1,03,465	1,13,609
YoY gr. (%)	15.3	18.8	15.4	9.8
Cost of Goods Sold	44,201	54,408	62,561	67,847
Gross Profit	31,290	35,241	40,904	45,762
Margin (%)	41.4	39.3	39.5	40.3
Employee Cost	6,944	7,596	8,235	8,826
Other Expenses	14,700	17,147	19,052	20,054
EBITDA	9,646	10,498	13,617	16,882
YoY gr. (%)	(7.3)	8.8	29.7	24.0
Margin (%)	12.8	11.7	13.2	14.9
Depreciation and Amortization	3,817	4,054	4,522	4,990
EBIT	5,829	6,444	9,095	11,892
Margin (%)	7.7	7.2	8.8	10.5
Net Interest	64	173	176	178
Other Income	410	393	501	512
Profit Before Tax	5,861	6,561	9,421	12,225
Margin (%)	7.8	7.3	9.1	10.8
Total Tax	1,254	1,608	2,167	2,812
Effective tax rate (%)	21.4	24.5	23.0	23.0
Profit after tax	4,607	4,954	7,254	9,414
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,854	5,032	7,254	9,414
YoY gr. (%)	(8.2)	3.7	44.2	29.8
Margin (%)	6.4	5.6	7.0	8.3
Extra Ord. Income / (Exp)	(247)	(78)	-	-
Reported PAT	4,607	4,954	7,254	9,414
YoY gr. (%)	(11.3)	7.5	46.4	29.8
Margin (%)	6.1	5.5	7.0	8.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	4,607	4,954	7,254	9,414
Equity Shares O/s (m)	141	141	141	141
EPS (Rs)	34.5	35.8	51.6	66.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	48,975	54,975	60,975	66,975
Tangibles	48,975	54,975	60,975	66,975
Intangibles	-	-	-	-
Acc: Dep / Amortization	23,585	27,639	32,161	37,151
Tangibles	23,585	27,639	32,161	37,151
Intangibles	-	-	-	-
Net fixed assets	25,390	27,336	28,814	29,824
Tangibles	25,390	27,336	28,814	29,824
Intangibles	-	-	-	-
Capital Work In Progress	1,193	1,217	1,241	1,266
Goodwill	1,757	1,792	1,828	1,864
Non-Current Investments	12	12	12	13
Net Deferred tax assets	745	760	775	791
Other Non-Current Assets	979	999	1,019	1,039
Current Assets				
Investments	4,856	4,953	5,052	5,153
Inventories	7,011	8,326	9,610	10,552
Trade receivables	9,704	11,524	13,299	14,603
Cash & Bank Balance	4,026	5,253	9,159	15,899
Other Current Assets	2,896	2,954	3,013	3,073
Total Assets	58,570	65,126	73,823	84,077
Equity				
Equity Share Capital	1,407	1,407	1,407	1,407
Other Equity	37,793	41,903	48,208	56,672
Total Network	39,200	43,310	49,615	58,079
Non-Current Liabilities				
Long Term borrowings	2,099	2,120	2,141	2,163
Provisions	874	891	909	927
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	2,197	2,241	2,286	2,332
Trade payables	12,413	14,741	17,013	18,681
Other current liabilities	1,786	1,822	1,858	1,896
Total Equity & Liabilities	58,570	65,126	73,823	84,077

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	5,861	6,561	9,421	12,225
Add. Depreciation	3,817	4,054	4,522	4,990
Add. Interest	64	173	176	178
Less Financial Other Income	410	393	501	512
Add. Other	(96)	(290)	(501)	(512)
Op. profit before WC changes	9,646	10,498	13,617	16,882
Net Changes-WC	(2,667)	(811)	(792)	(583)
Direct tax	(1,402)	(1,622)	(2,182)	(2,827)
Net cash from Op. activities	5,577	8,064	10,643	13,472
Capital expenditures	(5,170)	(6,059)	(6,060)	(6,061)
Interest / Dividend Income	-	-	-	-
Others	(52)	271	481	491
Net Cash from Invt. activities	(5,222)	(5,788)	(5,579)	(5,570)
Issue of share cap. / premium	(149)	-	-	-
Debt changes	54	65	66	67
Dividend paid	(879)	(844)	(949)	(949)
Interest paid	(64)	(173)	(176)	(178)
Others	-	-	-	-
Net cash from Fin. activities	(1,038)	(952)	(1,059)	(1,061)
Net change in cash	(682)	1,324	4,005	6,841
Free Cash Flow	407	2,005	4,583	7,411

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	34.5	35.8	51.6	66.9
CEPS	61.6	64.6	83.7	102.4
BVPS	278.7	307.9	352.7	412.9
FCF	2.9	14.3	32.6	52.7
DPS	6.3	6.0	6.8	6.8
Return Ratio(%)				
RoCE	14.0	14.1	17.9	20.4
ROIC	15.0	14.3	19.4	24.8
RoE	13.0	12.2	15.6	17.5
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	21	21	21	21
Valuation(x)				
PER	40.8	39.3	27.3	21.0
P/B	5.0	4.6	4.0	3.4
P/CEPS	22.8	21.8	16.8	13.7
EV/EBITDA	20.0	18.3	13.8	10.7
EV/Sales	2.6	2.1	1.8	1.6
Dividend Yield (%)	0.4	0.4	0.5	0.5

Source: Company Data, PL Research

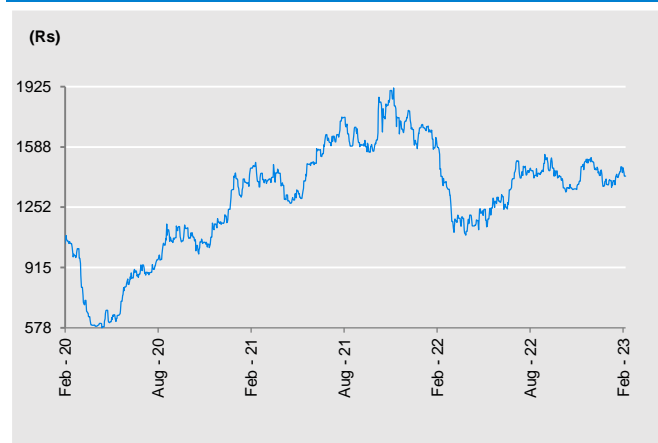
Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	20,788	21,138	23,606	20,952
YoY gr. (%)	-	-	-	-
Raw Material Expenses	12,554	12,775	14,707	12,557
Gross Profit	8,234	8,363	8,899	8,396
Margin (%)	39.6	39.6	37.7	40.1
EBITDA	2,571	2,398	2,716	2,395
YoY gr. (%)	(22.6)	(1.9)	4.5	17.9
Margin (%)	12.4	11.3	11.5	11.4
Depreciation / Depletion	981	991	993	1,016
EBIT	1,590	1,406	1,723	1,379
Margin (%)	7.6	6.7	7.3	6.6
Net Interest	17	19	61	46
Other Income	127	47	84	115
Profit before Tax	1,700	1,537	1,747	1,448
Margin (%)	8.2	7.3	7.4	6.9
Total Tax	338	297	432	366
Effective tax rate (%)	19.9	19.3	24.7	25.3
Profit after Tax	1,362	1,240	1,315	1,082
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,362	1,157	1,315	1,082
YoY gr. (%)	(27.3)	(13.0)	(1.4)	14.4
Margin (%)	6.6	5.5	5.6	5.2
Extra Ord. Income / (Exp)	-	83	-	-
Reported PAT	1,362	1,240	1,315	1,082
YoY gr. (%)	(27.3)	(22.3)	(1.4)	14.4
Margin (%)	6.6	5.9	5.6	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,362	1,240	1,315	1,082
Avg. Shares O/s (m)	141	141	141	141
EPS (Rs)	9.7	8.2	9.3	7.7

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jan-23	BUY	1,600	1,404
2	08-Nov-22	BUY	1,600	1,394
3	06-Oct-22	BUY	1,590	1,412
4	08-Jul-22	BUY	1,700	1,493
5	23-May-22	BUY	1,700	1,245
6	11-Apr-22	BUY	1,690	1,204
7	10-Feb-22	BUY	1,919	1,462

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	200	152
2	Bajaj Auto	Hold	4,040	3,717
3	CEAT	Accumulate	1,825	1,585
4	Hero Motocorp	BUY	3,135	2,616
5	Maruti Suzuki	BUY	10,600	8,699
6	Tata Motors	BUY	520	419
7	TVS Motors	BUY	1,240	984

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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