

February 9, 2023

RESULT REPORT Q3 FY23 | Sector: Automobile

Endurance Technologies

Focus on backward integration continues

Valuation and View – Healthy order wins to help drive outperformance

Endurance (ENDU) 3QFY23 consol results were in-line as better-than-expected margins in Europe business at 12.4% (+450bp QoQ, est 12.4%) was lower margins in S/A at 11.1% (+30bp QoQ, est 11.5%). Europe margins recovery was led by falling energy prices, and energy cost related compensation from government (Italian government) and customers (~60% recovery of inflated energy cost). New order wins of Rs8.8b/EUR67.4m in 9MFY23 (v/s Rs6.9b/Eur25m in SA/Europe in 1HFY23) is healthy considering weak volumes in domestic 2Ws and Europe. ENDU's EV specific orders at ~Rs5.8b (includes Rs1987.8 of new orders from Ather, Hero Electric. Rs230m for front forks).

Near-term challenges withstanding, we believe ENDU should continue to outperform industry growth driven by i) new order wins at both domestic/Europe, ii) ramp up in ABS supplies to ~1.2m units/annum by 2HFY24, iii) backward integration accelerated with setting up of paper plate manufacturing plant by 1QFY24 as its are mainly imported from China/US and in-house manufacturing of ABS valves. Operating costs headwinds are likely to ease in Europe, especially energy cost in addition to decline in RM inflation should drive margins expanding ~300bp over FY22-25E to 16%. We cut FY24/25 EPS by ~4-5% to factor delay in RM recovery and weak volumes. Maintain BUY with revised TP of Rs1,763 (v/s 1,709 earlier) as we roll forward TP to Mar'25 consol EPS (v/s Sep'24). ENDU trades at 25.3x/19.8x FY24/25 EPS (v/s 32x LPA) is comforting given expected revenue/EBITDA/PAT CAGR of 14%/23%/27% over FY22-25E.

Result Highlights – Consol results in-line, EUR subs margins positive

- Consol revenues de-grew 10% QoQ, (+11% YoY) at ~Rs21b (est Rs22.1b). S/A revenues de-grew 15% QoQ (+7% YoY) at Rs16b (est Rs17.7b) while derived Europe revenues grew 10.5% QoQ (+25% YoY) at ~Rs5b (est Rs4.3b). There was no Maharashtra state PSI incentive recorded in 3QFY23.
- Consol EBITDA was flattish QoQ (+18% YoY) at Rs2.4b (in-line) with margins expanded 110bp QoQ (+60bp YoY) at 11.4% (in-line). S/A margins expanded 30bp QoQ (flattish YoY) at 11.1% (in-line) while Europe margins (derived) expanded 450bp QoQ (+300bp YoY) at 12.4% (est 8.5%). This was led by margins recovery was led by falling energy prices, and energy cost related compensation from governments (Italian government) and customers (~60% recovery of inflated energy cost). Consol Adj.PAT grew 2% QoQ (+14.4% YoY) at Rs1.1b (in-line).
- 9MFY23 performance – Consol revenue/EBITDA/Adj.PAT grew 20%/6%/3%.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% variation		Remarks
		Yes Sec	Consensus	Yes Sec	Consensus	
Sales	20,952	22,057	22,186	-5.0	-5.6	In-line as Europe surprised positively while S/A was below estimates.
EBITDA	2,395	2,412	2,618	-0.7	-8.5	
EBITDA margins %	11.4	10.9	11.8	50bp	-40bp	
Adjusted PAT	1,082	1,121	1,289	-3.4	-16.0	

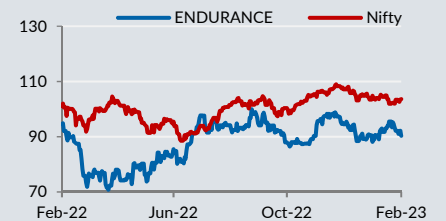
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,398
Target Price	: Rs 1,763
Potential Return	: +26%

Stock data (as on February 9, 2023)

Nifty	17,893
52 Week h/l (Rs)	1600 / 1047
Market cap (Rs/USD mn)	200424 / 2457
Outstanding Shares (mn)	141
6m Avg t/o (Rs mn):	99
Div yield (%):	0.4
Bloomberg code:	ENDU IN
NSE code:	ENDURANCE

Stock performance



	1M	3M	1Y
Absolute return	3.2%	0.8%	-3.8%

Shareholding pattern (As of Dec'22 end)

Promoter	75.0%
FII+DII	23.2%
Others	1.8%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,763	1,709

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	55.2	70.5
EPS (Old)	58.0	73.5
% change	(4.7%)	(4.0%)

Financial Summary- Consolidated

Y/E Mar (Rs b)	2023E	2024E	2025E
Sales	86.8	100.0	111.9
EBITDA	9.5	14.7	17.9
Adj. PAT	3.9	7.8	9.9
EPS (Rs)	27.9	55.2	70.5
EPS Growth (%)	-19.1	98.0	27.7
BV/Share (INR)	299.6	341.0	393.9
RoE (%)	9.7	17.2	19.2
RoCE (%)	12.2	21.4	24.6
Payout (%)	27.3	25.0	25.0
P/E (x)	50.1	25.3	19.8
EV/EBITDA (x)	20.8	13.3	10.7
EV/Sales (x)	2.3	2.0	1.7

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Exhibit 2: Quarterly snapshot

Y/e Mar (Rs mn)	Q3FY23	Q3FY22	YoY chg	Q2FY23	9MFY23	9MFY22	YoY chg
Net Revenues	20,952	18,891	10.9	23,282	65,072	54,113	20.3
Raw Materials	12,557	11,482	9.4	14,707	40,038	31,648	26.5
% of Net Sales	59.9%	60.8%		63.2%	61.5%	58.5%	
Personnel	1,932	1,669	15.8	1,742	5,545	5,260	5.4
% of Net Sales	9.2%	8.8%		7.5%	8.5%	9.7%	
Manufacturing & Other Exp	4,068	3,708	9.7	4,441	12,606	10,721	17.6
% of Net Sales	19.4%	19.6%		19.1%	19.4%	19.8%	
Total Expenditure	18,557	16,859	10.1	20,890	58,188	47,628	22.2
EBITDA	2,395	2,032	17.9	2,391	6,883	6,485	6.1
EBITDA Margin (%)	11.4%	10.8%		10.3%	10.6%	12.0%	
Depreciation	1,016	914	11.2	993	3,000	2,836	5.8
EBIT	1,379	1,119	23.3	1,399	3,883	3,649	6.4
Interest Expenses	46	14	227.7	61	126	47	170.7
Non-operating income	115	75	54.0	84	246	284	(13.2)
Extraordinary Expenses	0	0	#DIV/0!	285	483	(12)	
PBT	1,448	1,179	22.8	1,707	4,486	3,874	15.8
Tax-Total	366	233	57.2	432	1,095	916	19.5
Tax Rate (%) - Total	25.3%	19.8%		25.3%	1.7%	1.7%	
Reported PAT	1,082	946	14.4	1,275	3,391	2,958	14.7
Minority Interest	0	0	#DIV/0!	(285)	(483)	12	
Profit after MI	1,082	946	14.4	990	2,908	2,970	(2.1)
Adj. PAT	1,082	946	14.4	1,062	3,025	2,943	2.8
PAT Margin	5.2%	5.0%		4.6%	4.6%	5.4%	

Source- Company, Yes Sec

KEY CON-CALL HIGHLIGHTS

- **New order wins Rs8,774m in 9MFY23 (v/s Rs6,928m in 1HFY23)** new business other than Bajaj from customers such as HMSI, HMCL, Ather, Hero Electirc, M&M, TVS and Tata Motors.
 - The above order wins include Rs7,221.3m of new business and Rs1552.7m of replacement.
 - **EV order wins at Rs5771.8m in 9MFY23** includes Rs1987.8 of new orders from Ather, Hero Electric. Rs230m for front forks. Have got LOI from Ather recently for front fork rear shoch for Rs230 which will start by end of 1QFY24.
 - RFQ of Rs19,866m as of 3QFY23 (v/s Rs22,822m indicated in 1HFY23).
 - Since FY20 in India Rs27,440m of orders have been won of which Rs19,620 is new business (of which Rs4,410m will be executed in FY23 and Rs6,730m in FY24 and balance Rs8,480m in FY25/26) and Rs7,820m is replacement business.
- S/A revenues grew 7.4% YoY (v/s declined 0.7% 2W industry growth in 3Q as scooter grew 14.5% YoY and MC degrew 4.6% YoY) led by elevated metal prices, and higher volumes from plants, particularly in brakes and alloy wheels, where capacity was augmented to service new customer orders.
- **Maxwell** – have won new order of Rs700m for BMS from Hero electric and supply to commence from 1QFY24.
 - Maxwell revenues at Rs58m in 3QFY23 (v/s Rs40m QoQ), EBITDA loss Rs47m in 3QFY23 (loss of Rs61.5m QoQ).
 - Synergies with Maxwell, ENDU expect to excel in embedded electronics segment.
- **EV component strategy** – winning orders in Suspension, Brakes and castings over and above BMS order win from Hero. Focus is to engage with existing and new OEMs. There are new product in the works under electronics segment.
 - Hero and Okinawa account for ~20% of EV order book including recent BMS order from Hero Electric.
- Consol FCF was positive at Rs3,065m in 3QFY23 and Rs1,836m in 9MFY23.
- **Aftermarket sales** from Indian operations grew by 7.3% YoY at Rs3,085m (v/s Rs2,874m) in 9MFY23. Exporting to 31 countries.
 - 3Q domestic after market Rs844m v/s Rs871m YoY and exports declined to Rs208 from Rs303m. Total aftermarket sales declined to Rs1,078m from Rs1,147m.
 - 9MFY23 – Domestic to Rs2,531m from Rs2,062 (+22.8% YoY), exports Rs554m v/s Rs813 (-31.8% YoY).
- **Export sales** of S/A declined by 2.87% Rs1,426m in 9MFY23(v/s Rs1,385m YoY) led by lower exports orders in after markets from Africa, South America countries like Columbia and Asia.
- ENDU is investing inhouse to setup BMS line.
- 200cc+ brakes business started and 200+ clutch will start from 1QFY24.
- Paper based clutch assemblies in focus replacing fork based clutch assemblies in motorcycle segment. Hence setting up paper manufacturing plant in Waluj as backward integration and operation to start from 1QFY24. This will reduce cost/dependence in imported paper comes mainly from US and China.
- CVT for Scooters – in advance stage of testing with HMCL and expect to commence supply from FY24.
- **ABS for 125cc+ 2Ws** - started supply to Bajaj (Sep'21) and RE (Feb'22) and engaging with other OEMs as well. Will reach run rate of 200k ABS assemblies from this month and also in process to supply dual channel ABS by June'23. **Adding 200k units additional assembly lines by Mar'23**

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will take total assemblies by 600k (including 200k of dual channel) and further planning to increase volumes to 1.2m units by 2HFY24.

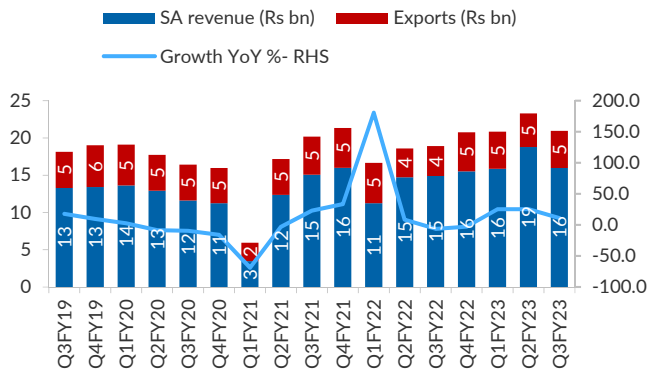
- Will also undertake in-house manufacturing of ABS valves which will help substantial lowering of cost. The technology will come from BWI for the same.
- Alloy wheels – Supply to Hero Electric to start from Feb'23 end.
- Aluminium forgings (for inverted front forks) – supply have started to Bajaj and exports (KTM). Also have received orders for stand assemblies and under bracket aluminium forgings from HMCL. Also engaged with other OEMs for supply of Alu forgings other than inverted front forks.
- Don't expect further correction in Aluminium price in 4Q as most of the same.
- Castings orders – 4W orders Rs2.5b from Hyundai and Kia, have got new orders from Tata and M&M. Casting is driving up share of 4Ws which is now at >8% v/s 6.5% YoY. Non auto Rs715m and exports order of Rs450m from Genrac. Want to take contribution from non-auto business >10%.
- There was no MH incentive recorded in 3QFY23.

Europe

- EU and UK industry numbers grew by 14.9% (v/s +0.4% in 2QFY23) with markets of Italy and Germany recording higher than average growth. Overall Europe industry volumes were down though by 19.4% (v/s 3QFY20).
- Europe revenues grew 26.1% YoY in Euro terms (and 23.6% adjusted for aluminum inflation) at EUR60.1m (v/s EUR47.6m). EBITDA to EUR8.6m (v/s EUR5.2m YoY), Europe margins at 14.4% (v/s 11% YoY and ex of Aluminum impact EBITDA margins at 14.7%). PAT at EUR3m.
- Europe margins recovery was led by falling energy prices, and energy cost related compensation from governments (Italian government) and customers (~60% recovery of inflated energy cost).
- Europe – EUR42m order wins in 3QFY23 (of which EUR25m from VW and EUR17m Stellantis), EUR67.4m in 9MFY23 new order wins from VW, Stellates and Daimler. Overall EUR140m orders (of which 30% EV and 60% hybrid) received in last 2 years.
- Chips availability is now more normalized but demand continues to be weak.
- Capex – EUR25m in FY23 and EUR45m expected for FY24.

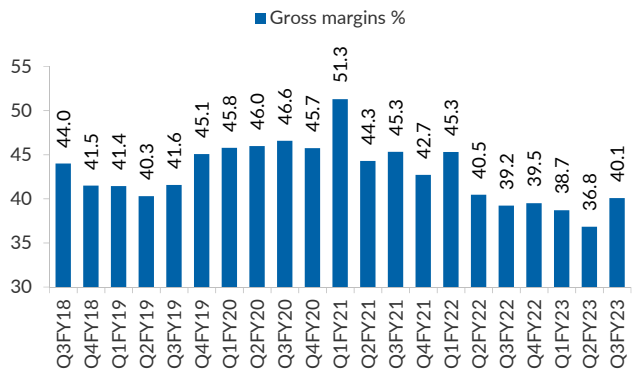
CHARTS

Exhibit 1: SA/Eur revenue were -15%/+10.5% QoQ



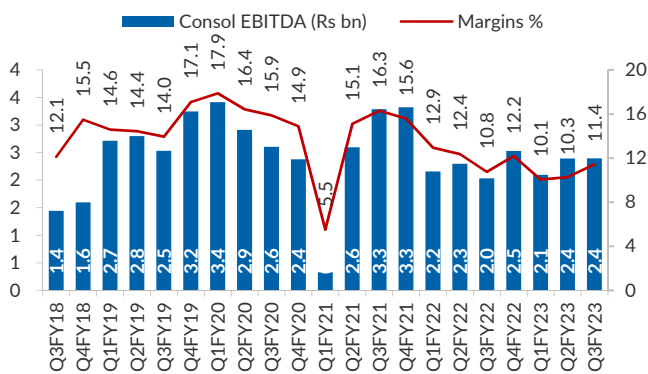
Source: Company, YES Sec

Exhibit 2: Gross margins expanded by 330bps QoQ



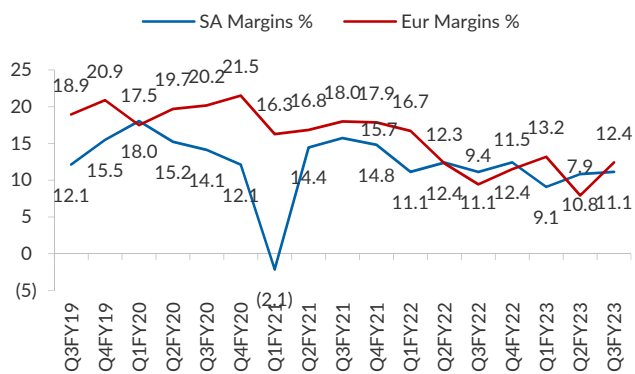
Source: Company, YES Sec

Exhibit 3: Margins expanded ~110bp QoQ at 11.4%



Source: Company, YES Sec

Exhibit 4: Trend in S/A and Europe business margins



Source: SIAM, YES Sec

FINANCIALS

Exhibit 5: Balance Sheet

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Equity Share Capital	1,407	1,407	1,407	1,407	1,407	1,407
Preference Capital	-	-	-	-	-	-
Total Reserves	28,654	34,215	37,793	40,737	46,564	54,005
Net Worth	30,060	35,621	39,200	42,144	47,971	55,411
Minority Interest	-	0	0	0	0	0
Total Loans	5,482	6,411	4,296	3,296	2,296	1,296
Deferred Tax Liabilities	79	5	6	6	6	6
Capital Employed	35,621	42,038	43,503	45,446	50,274	56,714
Gross Block	40,580	44,054	48,000	54,000	60,000	66,000
Less: Accum. Deprn.	16,141	19,768	22,610	26,650	31,127	35,881
Net Fixed Assets	24,439	24,286	25,390	27,350	28,873	30,119
Goodwill on Consolidation	1,624	1,740	1,757	1,757	1,757	1,757
Capital WIP	1,260	962	1,193	1,193	1,193	1,193
Total Investments	1,660	4,443	4,868	5,355	5,890	6,479
Curr. Assets, Loans&Adv.	21,716	26,045	25,368	27,133	32,519	39,518
Inventory	5,501	6,118	7,011	8,066	10,954	12,267
Account Receivables	6,727	10,410	9,704	11,163	12,848	14,389
Cash and Bank Balance	6,209	5,133	4,026	2,581	2,591	6,001
Loans and Advances	3,278	4,383	4,627	5,323	6,126	6,861
Curr. Liability & Prov.	15,078	15,438	15,074	17,341	19,958	22,352
Account Payables	10,662	12,783	12,413	14,281	16,436	18,407
Other Current Liabilities	3,305	1,622	1,786	2,055	2,365	2,649
Provisions	1,111	1,032	874	1,005	1,157	1,296
Net Current Assets	6,638	10,607	10,295	9,792	12,561	17,166
Appl. of Funds	35,621	42,037	43,502	45,446	50,274	56,714

Source: Company, YES Sec

Endurance Technologies (ENDU)

Exhibit 6: Income statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	69,177	65,470	75,491	86,847	99,953	111,940
Change (%)	(7.9)	(5.4)	15.3	15.0	15.1	12.0
Total Expenditure	57,869	55,068	65,845	77,364	85,245	94,037
% of Sales	83.7	84.1	87.2	89.1	85.3	84.0
EBITDA	11,308	10,402	9,646	9,483	14,708	17,903
Margin (%)	16.3	15.9	12.8	10.9	14.7	16.0
Depreciation	4,143	3,991	3,817	4,040	4,477	4,754
EBIT	7,165	6,411	5,829	5,443	10,231	13,149
Int. and Finance Charges	175	138	64	189	122	72
Other Income	476	307	410	370	575	575
PBT bef. EO Exp.	7,465	6,580	6,176	5,624	10,684	13,652
EO Items	-	(112)	(315)	(483)	-	-
PBT after EO Exp.	7,465	6,468	5,861	5,141	10,684	13,652
Total Tax	1,810	1,272	1,254	1,553	2,914	3,731
Tax Rate (%)	24	20	21	30	27	27
Reported PAT	5,655	5,197	4,607	3,588	7,770	9,921
Adjusted PAT	5,655	5,287	4,854	3,925	7,770	9,921
Change (%)	11.1	(6.5)	(8.2)	(19.1)	98.0	27.7
Margin (%)	8.2	8.1	6.4	4.5	7.8	8.9

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement

Y/E March (Rs mn)	FY20	FY21	FY22	FY23E	FY24E	FY25E
OP/(Loss) before Tax	7,465	6,468	5,861	5,624	10,684	13,652
Depreciation	4,143	3,991	3,817	4,040	4,477	4,754
Interest & Finance Charges	169	132	57	(181)	(453)	(503)
Direct Taxes Paid	(2,256)	(1,739)	(1,600)	(1,553)	(2,914)	(3,731)
(Inc)/Dec in WC	538	(2,695)	(398)	(943)	(2,759)	(1,196)
CF from Operations	10,060	6,157	7,737	6,987	9,035	12,976
Others	54	57	(322)	-	-	-
CF from Operating incl EO	10,114	6,215	7,416	6,987	9,035	12,976
(Inc)/Dec in FA	(5,472)	(3,114)	(5,195)	(6,000)	(6,000)	(6,000)
Free Cash Flow	4,642	3,101	2,220	987	3,035	6,976
(Pur)/Sale of Investments	1	0	(0)	(487)	(535)	(589)
CF from Investments	(6,706)	(5,906)	(5,513)	(6,117)	(5,960)	(6,014)
Inc/(Dec) in Debt	187	(921)	(1,828)	(1,000)	(1,000)	(1,000)
Interest Paid	(169)	(134)	(67)	(189)	(122)	(72)
Dividend Paid	(1,865)	(0)	(844)	(981)	(1,942)	(2,480)
CF from Fin. Activity	(2,576)	(1,430)	(3,020)	(2,170)	(3,065)	(3,552)
Inc/Dec of Cash	832	(1,122)	(1,117)	(1,300)	10	3,410
Opening Balance	5,377	6,255	5,144	4,026	2,726	2,736
Closing Balance	6,209	5,133	4,026	2,726	2,736	6,146

Source- Company, YES Sec

Endurance Technologies (ENDU)

Exhibit 8: Growth and Ratio matrix

Y/E March	FY20	FY21	FY22	FY23E	FY24E	FY25E
Basic (INR)						
EPS	40.2	37.6	34.5	27.9	55.2	70.5
Cash EPS	69.7	66.0	61.6	56.6	87.1	104.3
BV/Share	213.7	253.2	278.7	299.6	341.0	393.9
DPS	5.5	6.0	6.3	7.0	13.8	17.6
Payout (%)	16.5	16.2	19.1	27.3	25.0	25.0
Valuation (x)						
P/E	34.8	37.2	40.5	50.1	25.3	19.8
Cash P/E	20.1	21.2	22.7	24.7	16.1	13.4
P/BV	6.5	5.5	5.0	4.7	4.1	3.5
EV/Sales	2.8	3.0	2.6	2.3	2.0	1.7
EV/EBITDA	17.3	19.0	20.4	20.8	13.3	10.7
FCF per share	33.0	22.0	15.8	7.0	21.6	49.6
Return Ratios (%)						
RoE	20.3	16.1	13.0	9.7	17.2	19.2
RoCE	21.5	16.5	13.6	12.2	21.4	24.6
RoIC	21.3	17.8	14.1	10.9	19.3	22.8
Working Capital Ratios						
Asset Turnover (x)	1.7	1.5	1.6	1.6	1.7	1.7
Inventory (Days)	29.0	34.1	33.9	33.9	40.0	40.0
Debtor (Days)	35.5	58.0	46.9	46.9	46.9	46.9
Creditor (Days)	56.3	71.3	60.0	60.0	60.0	60.0
Leverage Ratio (x)						
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)

Source- Company, YES Sec

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