

Endurance Technologies

Cost headwinds recede, but demand uncertainty prevails

Endurance Q4 PAT grew 26% QoQ to INR 1.36bn on the back of recovery in Europe margin to 17.8% (+350bps QoQ) as well as improvement in India margin by 80bps QoQ to 11.9%. While Endurance standalone outperformed the domestic auto industry, its Europe business underperformed the Europe auto industry in Q4. Going ahead, domestic 2W OEMs continue to see weak demand in domestic and export markets and are likely to remain the key concern for Endurance. Further, while supply chain challenges seem to have eased out globally, the demand outlook remains weak in Europe, given the record high inflation and rising interest rates in the region. On the back of a gradual decline in input costs and a reduction in energy costs in Europe, we factor in consolidated margin improvement to 14% by FY25E (from 11.8% in FY23), which is still well below its previous peak of 16.3% in FY20. While we have factored in most of the key positives, the valuation at 29.6x FY24E earnings appears expensive. Reiterate REDUCE with a revised target of INR 1,426 (earlier INR 1,340), as we roll forward to FY25 EPS (unchanged target multiple of 25x).

- **India performance improves QoQ:** Endurance standalone revenue grew 6% YoY in Q4 relative to an industry decline of 0.5%. Overall, the EBITDA margin improved by 80bps QoQ to 11.9% on the back of softening input costs. As a result, standalone PAT grew 13% QoQ to INR1bn.
- **Europe performance normalizes in Q4:** In Q4FY24, its Europe revenue grew 7.6% YoY to Euro 67.4mn, relative to industry growth of 18% YoY in Q4. Europe margin has improved sharply by 350bps QoQ (+520bps YoY) to 17.8%. The sharp margin improvement has been largely driven by full pass-through of energy costs as a combination of price pass-through from OEMs and support from the government.
- **Call takeaways:** (1) New orders won in India business in FY23 have increased to INR9.4bn (INR 7.4bn in FY22), and they include INR 3.8bn worth of EV orders. In addition, Maxwell won orders worth INR 1.3bn in FY23. (2) New orders won in Europe business in FY23 have increased to Euro 84mn (INR 74mn in FY22), which includes 49% orders from EVs and 32% from hybrid vehicles. (3) Maxwell Energy posted revenue of INR180.3mn in FY23 with an EBITDA loss of INR 118.5mn. Management targets a strong ramp-up in revenue for FY24 at Maxwell and expects to break even at the EBITDA level in FY24 itself. (4) The company is targeting to increase its after-market revenue mix to 10% of revenue by FY26, from 6.5% in FY23. (5) Consumer sentiment is not positive in Europe; while energy costs there have reduced by 25% in Q1 QoQ, the Italy government has also reduced its support to 20%, from 45% earlier. Overall, management expects the EBITDA margin to improve YoY in FY24 in Europe, given reduced energy and input costs.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	22,343	20,788	7.5	20,952	6.6	75,491	88,040	1,00,456	1,12,277
EBITDA	2,854	2,571	11.0	2,395	19.2	9,646	10,363	13,296	15,625
APAT	1,365	1,362	0.2	1,082	26.1	4,922	4,899	6,595	8,026
Diluted EPS (INR)	9.7	9.7	0.2	7.7	26.1	35.0	34.8	46.9	57.1
P/E (x)						39.7	39.9	29.6	24.4
EV / EBITDA (x)						19.8	18.4	14.1	11.7
RoCE (%)						14.7	13.7	17.1	18.7

Source: Company, HSIE Research

REDUCE

CMP (as on 18 May 23)	INR 1,385
Target Price	INR 1,426
NIFTY	18,130

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,340	INR 1,426
EPS %	FY24E	FY25E
	-2.4%	-3.5%

KEY STOCK DATA

Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (INR bn) / (\$ mn)	195/2,381
6m avg traded value (INR mn)	68
52 Week high / low	INR 1,565/1,172

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	2.0	(8.1)	11.1
Relative (%)	1.3	(7.7)	(2.2)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	75.00	75.00
FIs & Local MFs	15.48	15.55
FPIs	7.65	7.65
Public & Others	1.87	1.80
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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