Endurance Technologies

BSE SENSEX	S&P CNX
37,115	11,157

Bloomberg	ENDU IN
Equity Shares (m)	141
M.Cap.(INRb)/(USDb)	164.5 / 2.3
52-Week Range (INR)	1579 / 1065
1, 6, 12 Rel. Per (%)	4/-3/-4
12M Avg Val (INR M)	104
Free float (%)	25.0

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	75.1	85.6	95.5
EBITDA	11.3	13.3	15.1
PAT	5.1	6.0	7.0
EPS (INR)	36.2	42.9	49.4
Gr. (%)	24.5	18.4	15.4
BV/Sh (INR)	182.3	212.3	246.9
RoE (%)	21.5	21.7	21.5
RoCE (%)	18.0	18.8	19.5
P/E (x)	32.3	27.3	23.6
P/BV (x)	6.4	5.5	4.7

Estimate change	⟺
TP change	⟺
Rating change	⟺

CMP: INR1,169 TP: INR1,350 (+15%) Buy

Outperformance continues; best-ever margins led by incentives, mix

- **Consol. revenue** grew 9.5% YoY to INR19b (in-line). EBITDA margins expanded 230bp YoY (310bp QoQ) to 17.1% (our est. 14.4%), led by strong margins in India and EU business. Consol. PAT grew 28% YoY to INR1.5b (our est. INR1.2b). FY19 consol. revenue/EBITDA/adj. PAT grew 18%/22%/24%.
- **India business** revenues grew 8% YoY to INR13.4b (in-line). EBITDA margin expanded 260bp YoY (+340bp QoQ) to 15.5% (our est. 12.9%) led by incentives, decline in RM and better mix. Adj. PAT grew 35% YoY to INR1.1b.
- **EU business** revenues grew 12.5% YoY to INR5.6b (in-line), with CC revenue growing 10.9% YoY. EBITDA margin expanded 130bp YoY (+200bp QoQ) to 20.9%, driven by higher tooling revenues. Higher depreciation restricted PAT growth to 17% YoY at INR384m (our est. INR352m).
- **Key highlights from earnings call:** (a) In FY19, ENDU received new orders of INR10.3b in India and ~EUR60m in the EU business, taking the total Europe order book to EUR280-290m. (b) Share of proprietary business increased 2pp to ~51% in India. (c) In the castings business, focus was on margin improvement by increasing value-adds. (d) Delay in ABS product is due to the longer testing time under different road conditions. (e) Focus to increase Fonpresmetal EBITDA margins by 2% in FY20 through economies of scale as well as efficiency program. (f) FY20 capex: India — INR3b; EU — EUR25m.
- **Valuation and view:** We have maintained FY20/21 EPS, as increase in EBITDA margins by 70bp/50bp was off-set by cut in revenue estimates due to weaker 2W industry outlook. ENDU offers strong growth potential driven by newer products and technology. We believe it is the best proxy play on India's 2W industry growth, as it should continue to outperform 2W volume growth through sustained increase in content and cross-selling. Even the EU business is expected to outperform underlying industry growth due to increasing wallet share of customers. We estimate ENDU's revenue/PAT to grow at ~13%/17% CAGR, despite expected tepid volume growth for the industry. Maintain **Buy,** with a TP of INR1,350 (27x FY21E EPS).

Consolidated – Quarterly

Y/E March	FY18				FY19				FY18	FY19		Var
INR m	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Net Sales	**15,057**	**15,723**	**15,386**	**17,348**	**18,604**	**19,367**	**18,130**	**19,004**	**63,514**	**75,105**	**19,051**	**-0.2**
YoY Change (%)	4.5	8.6	16.6	25.7	23.6	23.2	17.8	9.5	13.7	18.2	9.8	
RM Cost (% of sales)	57.8	58.1	56.0	58.5	58.6	59.7	58.4	54.9	57.6	57.9	58.6	-370bp
Staff Cost (% of sales)	9.8	8.8	9.5	8.5	8.9	8.0	9.2	8.6	9.1	8.7	8.8	-20bp
Other Exp. (% of sales)	18.1	18.5	19.7	18.2	17.9	17.8	18.4	19.4	18.6	18.4	18.2	120bp
EBITDA	**2,139**	**2,295**	**2,271**	**2,573**	**2,714**	**2,798**	**2,530**	**3,246**	**9,279**	**11,288**	**2,740**	**18.5**
Margins (%)	14.2	14.6	14.8	14.8	14.6	14.4	14.0	17.1	14.6	15.0	14.4	270bp
Depreciation	742	768	798	907	820	921	936	1,085	3,216	3,762	940	
Interest	57	69	47	63	59	55	75	68	235	257	66	
Other Income	56	59	42	77	41	80	93	56	235	270	70	
PBT after EO	**1,397**	**1,517**	**1,199**	**1,680**	**1,876**	**1,902**	**1,404**	**2,149**	**5,793**	**7,331**	**1,804**	**19.1**
Eff. Tax Rate (%)	30.9	34.3	34.8	30.7	33.6	34.2	31.2	30.8	32.6	32.5	32.9	-200bp
Adj. PAT	**965**	**997**	**957**	**1,164**	**1,246**	**1,252**	**1,109**	**1,486**	**4,089**	**5,091**	**1,211**	**22.8**
YoY Change (%)	9.7	11.6	28.8	39.3	29.1	25.6	15.8	27.7	23.8	24.5	4.1	

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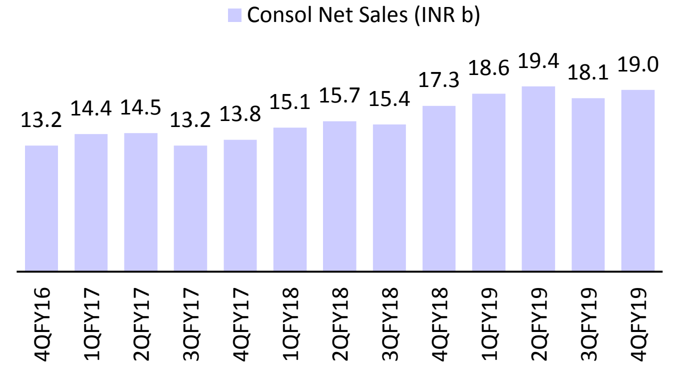
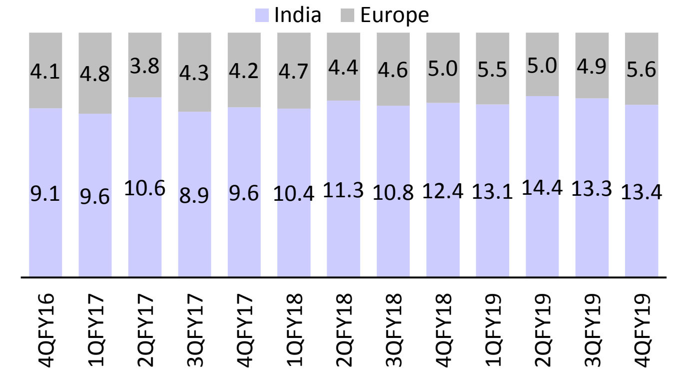
Exhibit 1: Trend in consolidated revenues



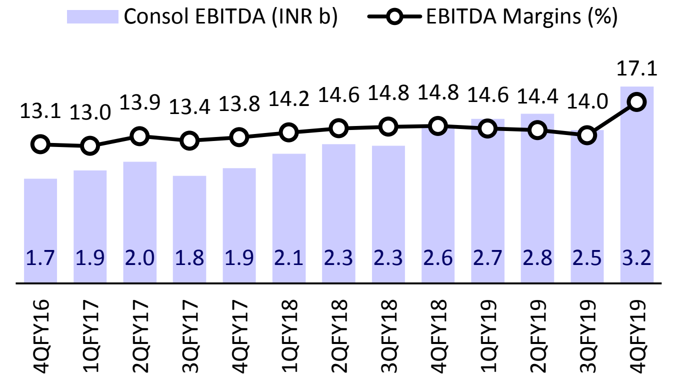
Source: Company, MOFSL

Exhibit 2: Revenue split in India and Europe



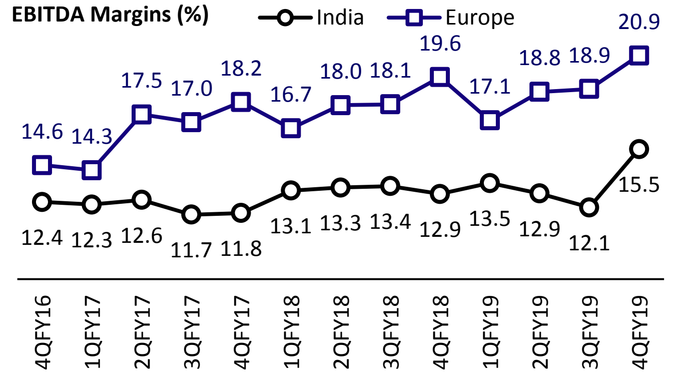
Source: Company, MOFSL

Exhibit 3: Trend in consolidated EBITDA margins



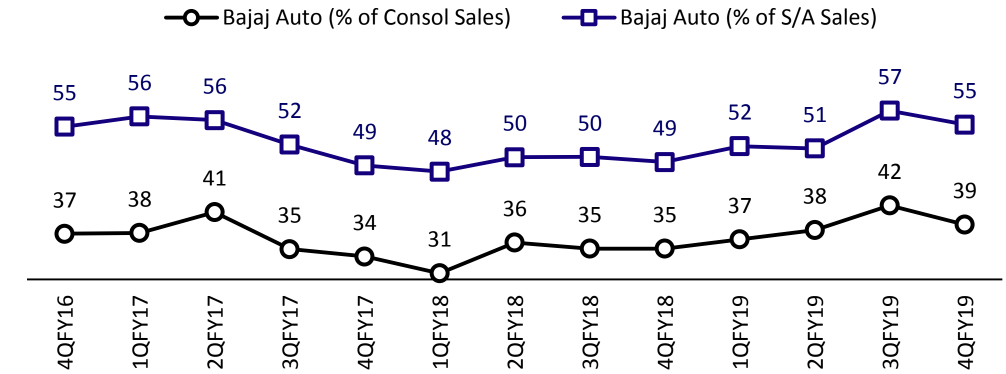
Source: Company, MOFSL

Exhibit 4: EBITDA margin trends in India and Europe



Source: Company, MOFSL

Exhibit 5: Trend in BJAUT' share in consolidated and standalone sales



Source: Company, MOFSL

CONFERENCE CALL

Key takeaways from management interaction

- In FY19, ENDU received **new business** of around INR10.3b from Kia, Hyundai, HMSI, HMCL, Yamaha, RE, Tata Motors and TVSL in its standalone business. The new business could also replace some of its existing business.
- In FY19, new order wins in the Europe business was at ~EUR60m, taking the total Europe order book to EUR280-290m; ~35% of the orders were for the EV/hybrid technology.
- The first-ever order from TVSL of INR400m for disc brake assemblies (1,000 sets per day) would commence from 3QFY20. Additionally, suspension, transmission and casting product supplies are under discussion.
- ENDU's 2W suspension plant at Halol commenced supplies to HMCL in Sep'18. Current supply is 2.6k units/day, which should reach 4k units/day in 1QFY20.
- Have also got orders for disc brakes from HMCL; supply should commence next month. CVT is also under testing stage.
- **ABS** tie-up with BWI is progressing well, with an initial capacity of 400k assemblies per annum. The product is facing some delay due to longer time for testing under different road conditions in India.
- Supply of front forks and shock absorbers to HMSI from Karnataka plant will commence from 2QFY20.
- ENDU has purchased land in Vallam to set up a second die-casting and machining plant for supplies to Hyundai, Kia and RE. This would commence production in 3QFY20.
- Revenue from the **replacement market** grew ~13.6% YoY in FY19 to ~INR2.7b while **exports** grew 26% YoY to INR2.7b, led by increased supply of castings to Getrag, KTM and aftermarket.
- ENDU has received incentive from the Maharashtra Government, totaling INR315m in 4QFY19.
- **Fonpresmetal** has EUR7m revenue, EBIT of EUR0.6m and EBITDA margins of ~10%. Focus to increase EBITDA margins by 2% in FY20 through economies of scale as well as efficiency program.
- **Europe:** Other expenses have increased due to Fonpresmetal acquisition (due to the machining process as Fonpresmetal buys from the market v/s ENDU EU's in-house process). Depreciation has increased due to Fonpresmetal and there has been accelerated depreciation for certain diesel component.
- **FY20 Capex:** INR3b in India and EUR25m for Europe.

Valuation and view

- Given ENDUs strong positioning in the 2W segment, we believe it is the best proxy to play India 2W opportunity with direct play on underlying trends of scooterization and premiumization.
- ENDU offers a strong management, diverse revenue profile, improving technological content, increasing wallet share of customers, and financial discipline.
- ENDU 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 consistently respectable RoE.
- At the helm is a proven management, as evident in the sustained profitable growth while entering new segments and significant market share gains.

- We believe that the strength in ENDU's business franchisee and its strong management will help the stock continue commanding premium valuation multiples in comparison to most domestic auto ancillary companies.
- In the domestic auto ancillary space, there are only a handful of high-quality, large-scaled, multi-product auto component suppliers. Considering ENDU's size and strong market share in its operating segments, we believe that the stock should command a premium to its domestic peers.
- We have maintained FY20/21 EPS, as increase in EBITDA margins by 70/50bp is off-set by cut in revenue estimates due to weaker 2W industry outlook. We believe ENDU offers strong growth potential driven by newer products and technology. We believe it is the best proxy play on India 2W industry growth, as it will continue to outperform 2W volume growth through sustained increase in content and cross-selling. Even EU business is expected to outperform underlying industry growth due to increasing wallet share of customers. We estimate ENDU’s revenue & PAT to grow ~13%/17% CAGR despite expected tepid volume growth for the industry. The stock trades at ~27.3x/23.6x FY20/21 consol. EPS, which is at premium to its auto/auto comp peers due to superior growth visibility. Maintain **Buy**, with a TP of IN1,350 (27x FY21E EPS).

Exhibit 6: Revised estimates (Consol.)

(INR M)	FY20E			FY21E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	85,553	87,195	-1.9	95,548	97,357	-1.9
EBITDA (%)	15.6	14.9	70bp	15.8	15.3	50bp
Net Profit	6,028	6,052	-0.4	6,955	7,041	-1.2
EPS (INR)	42.9	43.0	-0.4	49.4	50.1	-1.2

Source: MOFSL

Exhibit 7: Comparative valuations

	CMP	Rating	TP	P/E (x)		EV/EBITDA (x)		RoE (%)		Div Yield (%)		EPS CAGR (%)
Auto OEM's	(INR)*		(INR)	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E	FY18-20E
Bajaj Auto	2,916	Neutral	3,131	18.2	16.5	13.2	11.1	23.3	23.0	2.0	2.4	9.0
Hero MotoCorp	2,496	Neutral	2,912	14.8	14.2	8.9	8.1	27.5	26.1	3.5	3.6	-2.3
TVS Motor	463	Neutral	480	33.8	26.3	17.0	13.7	21.5	23.5	0.7	0.8	14.1
M&M	611	Buy	793	15.5	14.3	11.8	10.4	14.2	13.1	1.6	1.6	3.7
Maruti Suzuki	6,485	Buy	8,047	26.7	23.9	15.1	13.5	16.3	16.4	1.2	1.9	2.0
Tata Motors	170	Neutral	194	-25.6	15.3	4.5	3.6	-3.1	6.2	0.2	0.2	-27.2
Ashok Leyland	82	Buy	113	12.3	11.8	7.3	5.8	26.4	24.1	3.0	3.1	10.6
Eicher Motors	19,922	Buy	23,500	25.0	23.2	19.5	19.1	27.8	24.4	0.6	0.6	4.8
Escorts	550	Neutral	724	11.2	10.3	9.5	7.9	19.3	17.7	0.4	0.5	21.0
Auto Ancillaries												
Bharat Forge	454	Buy	604	19.1	16.7	11.4	9.9	22.0	21.4	1.1	1.4	21.7
Exide Industries	206	Buy	281	23.3	19.4	12.7	10.7	12.9	14.0	1.1	1.5	15.3
Amara Raja Batteries	625	Buy	864	22.2	17.6	11.1	8.8	15.6	17.2	0.7	0.9	14.3
BOSCH	16,975	Neutral	19,556	32.4	28.1	22.4	18.9	15.5	17.4	1.0	1.2	14.3
Endurance Tech	1,169	Buy	1,350	33.2	26.4	14.9	12.2	20.4	22.0	0.5	0.9	21.7
Motherson Sumi	118	Buy	186	24.4	18.5	8.2	6.2	16.7	19.4	1.0	1.5	13.3
Mahindra CIE	221	Buy	290	15.8	13.0	8.8	7.8	13.3	14.0	0.0	0.0	32.4
CEAT	965	Buy	1,277	15.6	13.6	8.4	7.9	9.6	10.3	1.2	1.3	6.9

Source: MOFSL

Story in Charts

Exhibit 8: Trend in consolidated sales

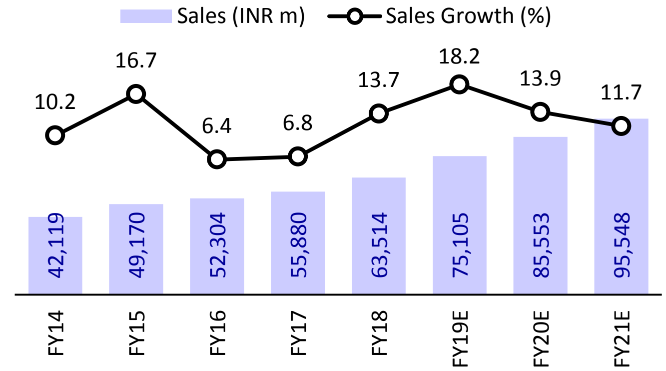


Exhibit 9: Trend in consolidated PAT

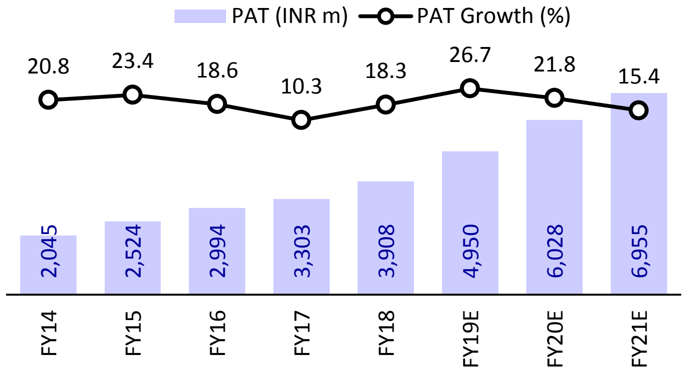


Exhibit 10: Geography-wise sales break-up FY19 (%)

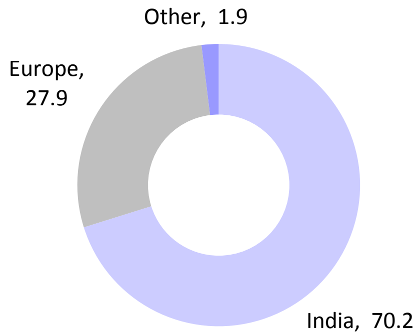


Exhibit 11: Market share in India business (%)

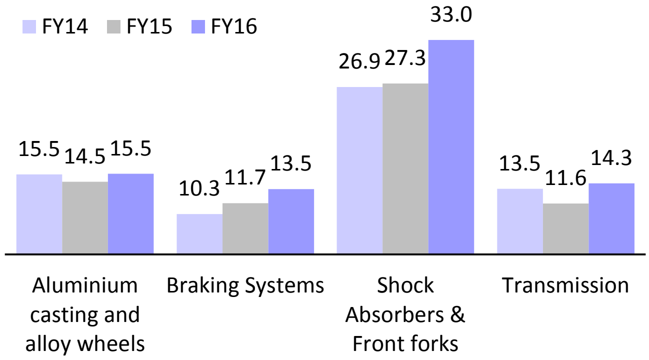


Exhibit 12: Customer-wise break-up (%)

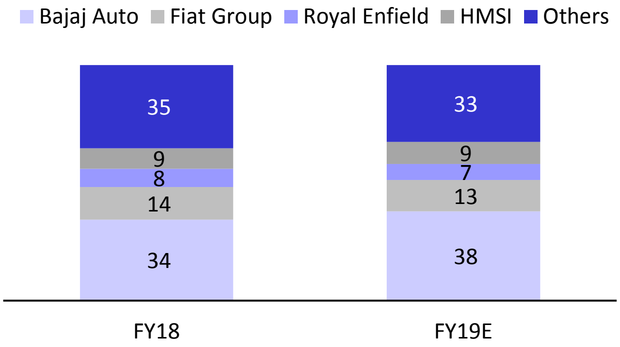
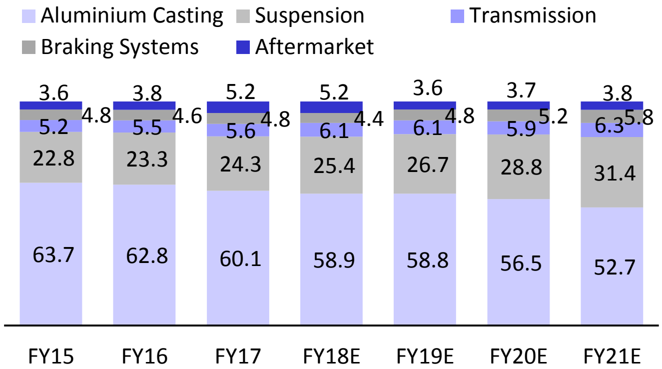


Exhibit 13: Segment-wise break-up (%, consolidated)



Financials and valuations

Consolidated - Income Statement (INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	**52,304**	**55,880**	**63,514**	**75,105**	**85,553**	**95,548**
Change (%)	6.4	6.8	13.7	18.2	13.9	11.7
Raw Materials	31,141	32,259	36,609	43,495	49,881	56,120
Employees Cost	4,823	5,455	5,809	6,527	7,030	7,596
Other Expenses	9,544	10,611	11,817	13,795	15,302	16,761
Total Expenditure	**45,509**	**48,325**	**54,235**	**63,817**	**72,213**	**80,476**
% of Sales	87.0	86.5	85.4	85.0	84.4	84.2
EBITDA	**6,795**	**7,555**	**9,279**	**11,288**	**13,340**	**15,072**
Margin (%)	13.0	13.5	14.6	15.0	15.6	15.8
Depreciation	2,432	2,905	3,216	3,762	4,510	5,027
EBIT	**4,363**	**4,650**	**6,063**	**7,526**	**8,830**	**10,045**
Int. and Finance Charges	490	322	235	257	235	212
Other Income	330	319	235	270	345	492
PBT bef. EO Exp.	**4,203**	**4,646**	**6,062**	**7,539**	**8,939**	**10,325**
EO Items	0	0	-269	-208	0	0
PBT after EO Exp.	**4,203**	**4,646**	**5,793**	**7,331**	**8,939**	**10,325**
Total Tax	1,199	1,343	1,886	2,381	2,911	3,369
Tax Rate (%)	28.5	28.9	32.6	32.5	32.6	32.6
Minority Interest	11	0	0	0	0	0
Reported PAT	**2,994**	**3,303**	**3,908**	**4,950**	**6,028**	**6,955**
Adjusted PAT	**2,994**	**3,303**	**4,089**	**5,091**	**6,028**	**6,955**
Change (%)	18.6	10.3	23.8	24.5	18.4	15.4
Margin (%)	5.7	5.9	6.4	6.8	7.0	7.3

Consolidated - Balance Sheet (INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	176	1,407	1,407	1,407	1,407	1,407
Preference Capital	0	0	0	0	0	0
Total Reserves	14,322	15,887	20,322	24,240	28,454	33,317
Net Worth	**14,498**	**17,293**	**21,729**	**25,647**	**29,861**	**34,724**
Minority Interest	0	0	0	0	0	0
Total Loans	8,262	6,794	5,586	5,584	4,584	3,584
Deferred Tax Liabilities	-185	-182	17	161	161	161
Capital Employed	**22,576**	**23,905**	**27,332**	**31,392**	**34,606**	**38,469**
Gross Block	35,138	20,052	25,218	32,159	36,409	40,659
Less: Accum. Deprn.	19,136	5,070	8,286	12,048	16,558	21,585
Net Fixed Assets	**16,002**	**14,982**	**16,932**	**20,112**	**19,851**	**19,074**
Goodwill on Consolidation	1,469	1,355	1,577	1,520	1,520	1,520
Capital WIP	1,034	438	592	1,178	1,178	1,178
Total Investments	**482**	**327**	**459**	**361**	**361**	**361**
Curr. Assets, Loans&Adv.	**15,238**	**17,807**	**23,852**	**24,690**	**30,456**	**37,287**
Inventory	4,099	4,438	4,939	5,400	6,151	6,870
Account Receivables	5,928	7,609	9,688	9,251	10,538	11,770
Cash and Bank Balance	1,674	2,199	5,027	5,379	8,458	12,719
Loans and Advances	3,537	3,561	4,198	4,660	5,308	5,928
Curr. Liability & Prov.	**11,650**	**11,004**	**16,081**	**16,468**	**18,759**	**20,951**
Account Payables	7,385	8,642	11,284	11,735	13,367	14,929
Other Current Liabilities	3,800	1,831	4,409	3,783	4,310	4,813
Provisions	464	531	388	950	1,082	1,209
Net Current Assets	**3,588**	**6,803**	**7,771**	**8,222**	**11,696**	**16,336**
Appl. of Funds	**22,576**	**23,905**	**27,332**	**31,392**	**34,606**	**38,469**

E: MOFSL Estimates

Financials and valuations

Ratios						
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
Basic (INR)						
EPS	**21.3**	**23.5**	**29.1**	**36.2**	**42.9**	**49.4**
Cash EPS	38.6	44.1	51.9	62.9	74.9	85.2
BV/Share	103.1	122.9	154.5	182.3	212.3	246.9
DPS	1.3	2.5	4.0	5.5	10.7	12.4
Payout (%)	7.1	12.8	17.3	18.8	30.1	30.1
Valuation (x)						
P/E	54.9	49.8	40.2	32.3	27.3	23.6
Cash P/E	30.3	26.5	22.5	18.6	15.6	13.7
P/BV	11.3	9.5	7.6	6.4	5.5	4.7
EV/Sales	3.3	3.0	2.6	2.2	1.9	1.6
EV/EBITDA	25.2	22.4	17.8	14.6	12.0	10.3
FCF per share	15.7	11.1	22.4	9.5	41.1	50.3
Return Ratios (%)						
RoE	23.0	20.8	21.0	21.5	21.7	21.5
RoCE	15.9	15.1	16.5	18.0	18.8	19.5
RoIC	16.7	16.4	19.4	22.2	24.3	27.7
Working Capital Ratios						
Fixed Asset Turnover (x)	1.5	2.8	2.5	2.3	2.3	2.3
Asset Turnover (x)	2.3	2.3	2.3	2.4	2.5	2.5
Inventory (Days)	29	29	28	26	26	26
Debtor (Days)	41	50	56	45	45	45
Creditor (Days)	52	56	65	57	57	57
Leverage Ratio (x)						
Current Ratio	1.3	1.6	1.5	1.5	1.6	1.8
Interest Cover Ratio	8.9	14.4	25.8	29.2	37.5	47.3
Net Debt/Equity	0.4	0.2	0.0	0.0	-0.1	-0.3

Consolidated - Cash Flow Statement						(INR m)
Y/E March	**FY16**	**FY17**	**FY18**	**FY19**	**FY20E**	**FY21E**
OP/(Loss) before Tax	4,203	4,646	5,793	7,539	8,939	10,325
Depreciation	2,432	2,905	3,216	3,762	4,510	5,027
Interest & Finance Charges	490	289	215	-13	-110	-280
Direct Taxes Paid	-1,050	-1,337	-2,095	-2,381	-2,911	-3,369
(Inc)/Dec in WC	301	-563	-18	-99	-395	-378
CF from Operations	**6,376**	**5,941**	**7,111**	**8,808**	**10,033**	**11,324**
Others	520	-570	310	0	0	0
CF from Operating incl EO	**6,896**	**5,371**	**7,421**	**8,808**	**10,033**	**11,324**
(Inc)/Dec in FA	-4,686	-3,804	-4,264	-7,470	-4,250	-4,250
Free Cash Flow	**2,209**	**1,567**	**3,157**	**1,338**	**5,783**	**7,074**
(Pur)/Sale of Investments	-456	190	-104	98	0	0
CF from Investments	**-5,433**	**-3,607**	**-4,355**	**-7,101**	**-3,905**	**-3,758**
Issue of Shares	0	0	0	0	0	0
Inc/(Dec) in Debt	14	-861	396	-2	-1,000	-1,000
Interest Paid	-486	-299	-208	-257	-235	-212
Dividend Paid	-296	-63	-423	-931	-1,814	-2,093
CF from Fin. Activity	-725	-1,224	-236	-1,190	-3,049	-3,305
Inc/Dec of Cash	**737**	**540**	**2,830**	**516**	**3,079**	**4,261**
Opening Balance	937	1,656	2,196	5,026	5,542	8,621
Closing Balance	**1,674**	**2,196**	**5,026**	**5,542**	**8,621**	**12,882**

NOTES

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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