

# Endurance Technologies Ltd.

BSE Code: **540153** | CMP : ₹**884.95** | Face Value : ₹**10** | Target price: ₹**1250** | HP\* : **Two years**

Our Pearl Pick for the month of June is Endurance Technologies. The company is one of the leading automotive component manufacturers, having a diverse range of technology intensified products, with operations both in India and Europe (Italy and Germany).

In India, it predominantly caters to two and three wheeler original equipment manufacturers (OEMs) and the products include aluminium castings/suspensions, transmission and braking systems. In Europe, it predominantly caters to four wheeler OEMs and mainly supply aluminium casting products.

The company's geographical mix stood at India-69.8 per cent, Europe-28.3 per cent and others-1.9 per cent. Looking at the segment-wise contribution, it stood at aluminium casting-56.8 per cent, suspension-27.1 per cent, transmission-6.5 per cent, braking systems-5.7 per cent and aftermarket-3.8 per cent.

## Acquisition of Grimeca would strengthen position in braking system business

In May 2020, the company has acquired 100 per cent in Grimeca Srl (Italy) for a consideration of Euro 2.25 million (approximately Rs 19 crore). This acquisition will help in strengthening technological prowess of the company in the area of braking systems. This would provide an impetus to the growth opportunities for the company's braking business in India, both for domestic and export markets.

## Debt-free status help to endeavour new opportunities in challenging times

The company currently stands with a negligible debt-to-equity (D/E) ratio of 0.1x. It helps the company to explore new opportunities via acquisitions that is being done during the ongoing pandemic, as cash flow is a leading challenge that is forcing other companies to stop or reduce investment plans.

## Improvement in margins likely to boost performance

In the recent quarter, operating margins stood at 16 per cent, which showed an improvement by 210 bps, supported by lower material costs. The company's operating margins are higher among the peers, which helps the company to perform in tough times. Profit after tax (PAT) has also improved by 29 per cent, led by lower interest cost.

## Resumption of plants in India and Italy

The company has started its operations in a gradual manner at its plants located in India. However, in Italy, all its subsidiaries are operating since May 04, 2020; except the foundry plant of Endurance SpA in Chivasso. The company's European Union (EU) operations are meeting 100 per cent of its production schedules and have not lost any business, though its operating rates have reduced significantly.

## Financial Performance

The company's consolidated revenue for the quarter Q3FY20 came in at Rs 1,640.53 crore as against Rs 1,812.98 crore in the corresponding quarter last year, registering 9.5 per cent YoY decline. EBITDA for the quarter grew by 3 per cent YoY to Rs 260.5 crore as against Rs 252.99 crore in the corresponding quarter last year. EBITDA margin for the quarter stood at 16 per cent. PAT for the quarter came in at Rs 124.04 crore as against Rs 96.56 crore in the corresponding quarter last year, with YoY increase of 28.5 per cent. Looking at nine-month numbers i.e. for 9MFY20, the revenue

\* HP : Holding Period

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DSJ Pvt. Ltd. : C - 105,, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Research Analyst - INH000006396

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declined by 5 per cent YoY to Rs 5,320.96 crore while, EBITDA grew by 11 per cent YoY to Rs 892.92 crore. Further, the company reported a net profit of Rs 458.7 crore, up by 32 per cent YoY.

The company's revenue grew at 12 per cent CAGR over the last five years and net profit grew at 19 per cent CAGR in the same period.

## Investing in the stock

The company has a share capital of Rs. 140.66 crore, with promoters' holdings at 75 per cent. Therefore, the available free float comes to 3.517 crore shares. The two-week average traded quantity comes to around 4101 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given.

| Price   | Accumulation |
|---------|--------------|
| 600-890 | 40 per cent  |
| 500-600 | 40 per cent  |
| <500    | 20 per cent  |

## Outlook

The company is trading at a TTM P/E of 19.69x with TTM EPS of Rs. 43.18. The low level of debt and tight control over fixed costs and raw material costs have enabled the company to maintain strategic focus on long term value creation, even in these times of rather prolonged degrowth. Company's return ratios stand strong mainly ROE- 21.25 per cent and ROCE- 24.55 per cent. Owing to all these factors, we see an upside of 41 per cent with a target price of Rs 1250 over the next two years.

### Inc/Exp Statement (Consolidated)

| Description       | 201903  | 201803  | 201703  | 201603  | 201503  |
|-------------------|---------|---------|---------|---------|---------|
| Net Sales         | 7510.50 | 6351.38 | 5590.87 | 5230.37 | 4916.95 |
| Total Income      | 7537.54 | 6374.92 | 5619.94 | 5265.56 | 4949.44 |
| Total Expenditure | 6381.72 | 5423.60 | 4832.54 | 4553.10 | 4312.08 |
| PBIDT             | 1155.82 | 951.32  | 787.40  | 712.46  | 637.35  |
| PAT               | 495.01  | 390.76  | 330.31  | 300.45  | 254.00  |
| Dividend %        | 55.00   | 40.00   | 25.00   | 73.75   | 70.00   |
| Adj. EPS(Rs)      | 35.19   | 27.78   | 23.48   | 21.28   | 17.94   |

### Quarter On Quarter (Consolidated)

| Particulars       | 201912  | 201909  | Q on Q Var % | 201812  | Y on Y Var % |
|-------------------|---------|---------|--------------|---------|--------------|
| Net Sales         | 1640.53 | 1771.26 | -7.38        | 1812.98 | -9.51        |
| Total Expenditure | 1380.03 | 1480.21 | -6.77        | 1559.99 | -11.54       |
| PBIDT (Excl OI)   | 260.5   | 291.05  | -10.5        | 252.99  | 2.97         |
| PAT               | 124.04  | 169.08  | -26.64       | 96.56   | 28.45        |
| PBIDTM% (Excl OI) | 15.88   | 16.43   | -3.35        | 13.95   | 13.84        |
| PBIDTM%           | 16.61   | 17.08   | -2.75        | 14.47   | 14.79        |
| PATM%             | 7.56    | 9.55    | -20.84       | 5.33    | 41.84        |
| Adj. EPS(Rs)      | 8.82    | 12.02   | -26.62       | 6.86    | 28.57        |

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