

Roadmap in place for continued superior growth in India

EVs not a big risk | Focus on mix improvement, cost cutting to drive margins

We had hosted the senior management of Endurance Technologies (ENDU). Our meeting with – Mr. Anurang Jain, Managing Director, ENDU; Mr. Satrajit Ray, Executive Director & Group Chief Financial Officer; and Mr. Massimo Venuti, Director & CEO, Endurance Overseas – included discussions on its growth strategy in India and the EU business, risk and opportunities from electrification and roadmap to further improve margins/capital efficiencies. Key highlights:

■ 2W business: Several growth drivers in place

- **Supplies all four of its products to all OEMs:** While it supplied all four of its products to BJAUT and RE, it has recently started supplies of all products to HMSI (after the brake assembly order). It is targeting to further cross-sell to other OEMs like HMCL and TVSL.
- **Product mix change:** It is looking to improve its product mix by increasing the share of higher value components. For instance, inverted front fork (to KTM, HMSI, and HMCL) and supply of brakes and clutch to 200cc and above bikes (recent acquisition of Adler and Grimeca would aid this). It has already seen a sharp improvement in its suspension business as it received a lion's share of the orders from HMSI when the latter shifted all its Scooters from shock absorbers to front forks (3x ASP).
- **Focus on machined castings:** Like 4Ws, it is focused on shifting to fully machined castings for 2Ws and 3Ws. It would be supplying fully machined castings only to BJAUT from next year.
- Taking share from others/adding new OEMs.
- **Backward integration:** Aluminum forgings (for inverted front forks starting from 1QFY22) and wire grade hoses (for ABS brakes) to drive margins.

- **ABS business getting closer to commercialization:** The company cleared all validations a month ago and received clearance for one model recently. It hopes to start supplying in Mar'21, or 1QFY22. For this customer, BOS is the key supplier. ENDU will be offering a lower price. The outlook has improved from initial expectations as the recovery has been better. After lowering its BS VI order book size from INR245b in 4QFY20 (pre-COVID) to ~INR185b in 1QFY21, it expects this number to improve from 1Q levels.

■ Focus of India PV business is on gaining share with existing OEMs and adding new OEMs

- PVs currently contribute ~5% of standalone revenues, primarily from Hyundai, Kia, TTMT and GETRAG (exports). It also supplies to MM, Fiat and MSIL.
- It has bagged an annual order worth INR3.07b from Hyundai and Kia, with the business peaking in FY22. It is working on additional RFQs. Since it is entirely supplying fully machined castings, EBITDA margin stands over 18%.
- It tried expanding its Suspension business in PVs through a JV with Magneti Marelli, but didn't see much success.
- It is looking at other organic and inorganic opportunities, including EV components.

Endurance Technologies

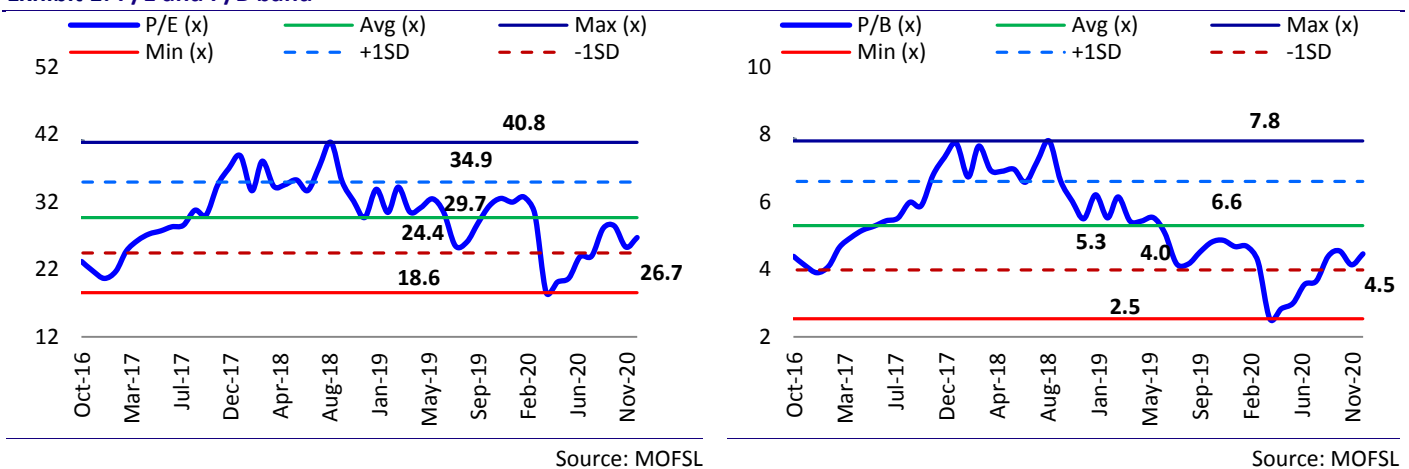


**Mr. Anurang Jain,
Managing Director,
Endurance Technologies**

Mr. Anurang Jain is the Promoter and Managing Director of Endurance Technologies. He has been associated with ENDU since its incorporation as a Director. He is responsible for overall operations of the company. Jain holds a Master's degree in Business Administration from the University of Pittsburgh. He has over 30 years of experience in the automobile components industry.

- **EV opportunity in India for 2W/3W castings:** Aluminum die-castings can cater to EV components like battery housing, case transmission, terminal phases, upper plates, middle plates, brackets, etc. This would more or less off-set the loss of business in ICE. The management believes that not many players have the capability and balance sheet strength in this business for investing in new opportunities. Clutch business, which is at risk from EVs, contributes 7% to India revenue. The same stands at 70% for Motorcycles.
- **Focus of EU business on maintaining revenue and margin over the next few years**
 - In FY21, it is targeting a revenue of EUR200m (v/s EUR220m in FY20). Over the next few years, it would focus on maintaining revenue and margin as the underlying industry transits to EVs.
 - It has won EUR115m business (50% of the order book) for the supply of hybrid and EV components to German customers like Daimler, BMW, VW, etc. Over the next six months, it expects more RFQs from its key customers for EV components.
 - It expects increase in transmission and suspension components as the share of EVs rise.
 - In 2QFY21, 60% revenue was from EV and hybrid solutions.
 - EVs v/s ICE profitability: PAT margin would be similar as depreciation for EV components would be lower due to higher life (7-8 years v/s five years earlier) as well as platform consolidation.
 - Structural parts: It is not focused on structural parts as it would require higher investments and volume/margin are low.
- **Cost cutting:** Over the last couple of years, it has focused on consolidation of plants (from 19 to 16) as well as reducing employee cost (recently offered VRS to 86 employees, resulting in savings of INR30m/annually). During the lockdown period, it focused more on lowering RM cost (through clean sheet costing), variable cost and fixed cost, etc.
- **Valuation and outlook:** Given ENDU's strong positioning in the 2W segment, it is the best proxy to play the India 2W opportunity, keeping in mind the underlying trends of premiumization. The strength in ENDU's business franchisee and strong management should help the stock continue to command 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-scale, multi-product auto component suppliers. Considering ENDU's size and strong market share in its operating segments, the stock should command a premium to its domestic peers. The stock trades at 24.4x/20.5x at FY22E/FY23E consolidated EPS. Maintain Buy with a TP of INR1,330/share (25x Sep-22E consolidated EPS).

Exhibit 1: P/E and P/B band



Endurance | Key operating indicators

Exhibit 2: Trend in consolidated sales

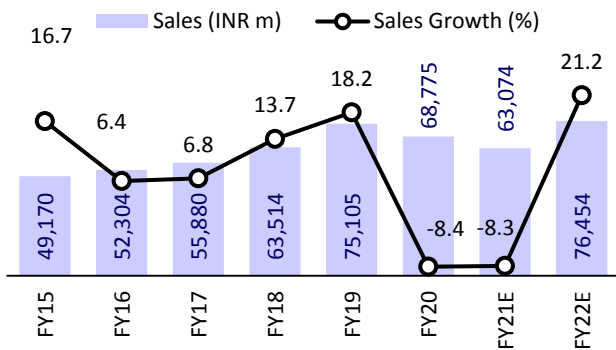


Exhibit 3: Trend in consolidated PAT

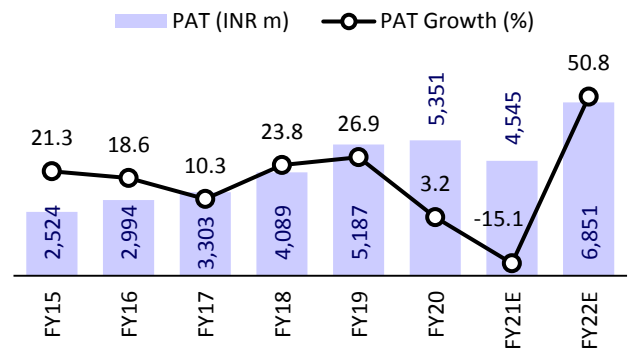


Exhibit 4: Geography-wise sales break-up FY20 (%)

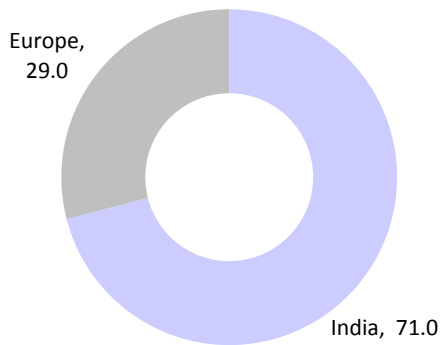


Exhibit 5: Market share in India business (%)

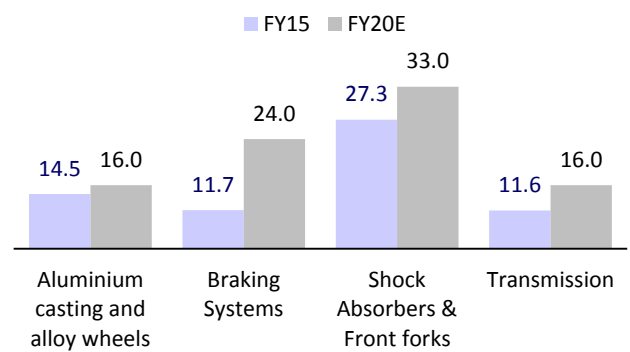


Exhibit 6: Customer-wise break-up (%)

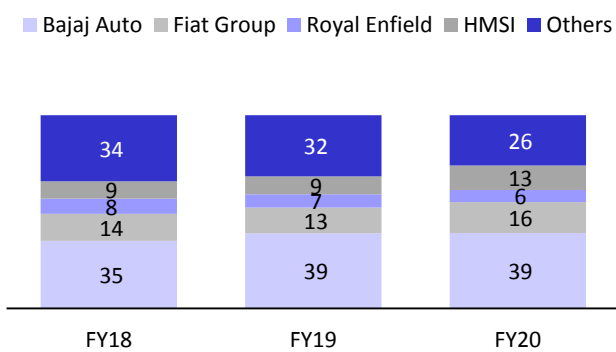
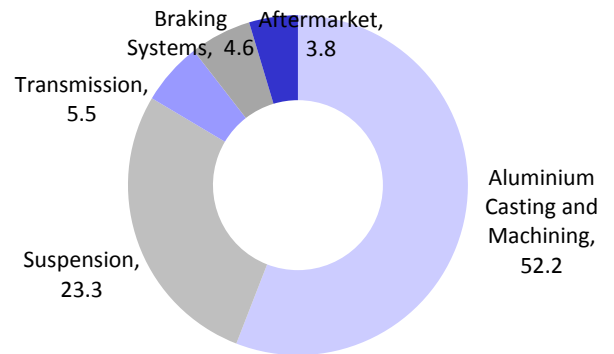


Exhibit 7: Segment-wise break-up (% consolidated)



Financials and valuations

| Consolidated - Income Statement | | | | | | | (INR m) |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Total Income from Operations | 55,880 | 63,514 | 75,105 | 68,775 | 63,074 | 76,454 | 85,104 |
| Change (%) | 6.8 | 13.7 | 18.2 | -8.4 | -8.3 | 21.2 | 11.3 |
| Raw Materials | 32,259 | 36,609 | 43,495 | 37,352 | 34,270 | 41,574 | 46,476 |
| Employees Cost | 5,455 | 5,809 | 6,527 | 6,773 | 6,360 | 6,890 | 7,249 |
| Other Expenses | 10,611 | 11,817 | 13,795 | 13,744 | 12,608 | 14,812 | 16,064 |
| Total Expenditure | 48,325 | 54,235 | 63,817 | 57,869 | 53,238 | 63,276 | 69,789 |
| % of Sales | 86.5 | 85.4 | 85.0 | 84.1 | 84.4 | 82.8 | 82.0 |
| EBITDA | 7,555 | 9,279 | 11,288 | 10,906 | 9,836 | 13,178 | 15,315 |
| Margin (%) | 13.5 | 14.6 | 15.0 | 15.9 | 15.6 | 17.2 | 18.0 |
| Depreciation | 2,905 | 3,216 | 3,762 | 4,143 | 4,167 | 4,569 | 5,102 |
| EBIT | 4,650 | 6,063 | 7,526 | 6,763 | 5,668 | 8,609 | 10,213 |
| Int. and Finance Charges | 322 | 235 | 257 | 175 | 156 | 134 | 134 |
| Other Income | 319 | 235 | 270 | 476 | 451 | 675 | 788 |
| PBT bef. EO Exp. | 4,646 | 6,062 | 7,539 | 7,064 | 5,964 | 9,150 | 10,867 |
| EO Items | 0 | -269 | 92 | 402 | 279 | 0 | 0 |
| PBT after EO Exp. | 4,646 | 5,793 | 7,631 | 7,465 | 6,243 | 9,150 | 10,867 |
| Total Tax | 1,343 | 1,886 | 2,381 | 1,810 | 1,485 | 2,298 | 2,728 |
| Tax Rate (%) | 28.9 | 32.6 | 31.2 | 24.2 | 23.8 | 25.1 | 25.1 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 3,303 | 3,908 | 5,250 | 5,655 | 4,758 | 6,851 | 8,140 |
| Adjusted PAT | 3,303 | 4,089 | 5,187 | 5,351 | 4,545 | 6,851 | 8,140 |
| Change (%) | 10.3 | 23.8 | 26.9 | 3.2 | -15.1 | 50.8 | 18.8 |
| Margin (%) | 5.9 | 6.4 | 6.9 | 7.8 | 7.2 | 9.0 | 9.6 |

| Consolidated - Balance Sheet | | | | | | | (INR m) |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Equity Share Capital | 1,407 | 1,407 | 1,407 | 1,407 | 1,407 | 1,407 | 1,407 |
| Preference Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Reserves | 15,887 | 20,322 | 24,240 | 28,654 | 31,831 | 36,621 | 42,312 |
| Net Worth | 17,293 | 21,729 | 25,647 | 30,060 | 33,238 | 38,028 | 43,718 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Loans | 6,794 | 5,586 | 5,584 | 5,482 | 4,482 | 3,482 | 3,482 |
| Deferred Tax Liabilities | -182 | 17 | 161 | 79 | 79 | 79 | 79 |
| Capital Employed | 23,905 | 27,332 | 31,392 | 35,621 | 37,798 | 41,588 | 47,279 |
| Gross Block | 20,052 | 25,218 | 32,159 | 40,629 | 43,629 | 48,379 | 54,379 |
| Less: Accum. Deprn. | 5,070 | 8,286 | 12,048 | 16,190 | 20,358 | 24,927 | 30,029 |
| Net Fixed Assets | 14,982 | 16,932 | 20,112 | 24,439 | 23,271 | 23,452 | 24,350 |
| Goodwill on Consolidation | 1,355 | 1,577 | 1,520 | 1,624 | 1,624 | 1,624 | 1,624 |
| Capital WIP | 438 | 592 | 1,178 | 1,260 | 1,260 | 1,260 | 1,260 |
| Total Investments | 327 | 459 | 361 | 1,660 | 1,660 | 1,660 | 1,660 |
| Curr. Assets, Loans & Adv. | 17,807 | 23,852 | 24,690 | 21,716 | 23,811 | 30,354 | 37,042 |
| Inventory | 4,438 | 4,939 | 5,400 | 5,501 | 5,045 | 6,115 | 6,807 |
| Account Receivables | 7,609 | 9,688 | 9,251 | 6,727 | 6,170 | 7,479 | 8,325 |
| Cash and Bank Balance | 2,199 | 5,027 | 5,379 | 6,209 | 9,590 | 13,115 | 17,854 |
| Loans and Advances | 3,561 | 4,198 | 4,660 | 3,279 | 3,007 | 3,645 | 4,057 |
| Curr. Liability & Prov. | 11,004 | 16,081 | 16,468 | 15,078 | 13,828 | 16,762 | 18,658 |
| Account Payables | 8,642 | 11,284 | 11,735 | 10,662 | 9,778 | 11,853 | 13,194 |
| Other Current Liabilities | 1,831 | 4,409 | 3,783 | 3,305 | 3,031 | 3,674 | 4,090 |
| Provisions | 531 | 388 | 950 | 1,111 | 1,019 | 1,235 | 1,374 |
| Net Current Assets | 6,803 | 7,771 | 8,222 | 6,638 | 9,983 | 13,592 | 18,384 |
| Appl. of Funds | 23,905 | 27,332 | 31,392 | 35,621 | 37,798 | 41,588 | 47,279 |

E: MOFSL estimates

Financials and valuations

| Ratios | (INR m) | | | | | | |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| Basic (INR) | | | | | | | |
| EPS | 23.5 | 29.1 | 36.9 | 38.0 | 32.3 | 48.7 | 57.9 |
| Cash EPS | 44.1 | 51.9 | 63.6 | 67.5 | 61.9 | 81.2 | 94.1 |
| BV/Share | 122.9 | 154.5 | 182.3 | 213.7 | 236.3 | 270.3 | 310.8 |
| DPS | 2.5 | 4.0 | 5.5 | 9.5 | 8.1 | 12.2 | 14.5 |
| Payout (%) | 12.8 | 17.3 | 17.7 | 28.5 | 28.7 | 30.1 | 30.1 |
| Valuation (x) | | | | | | | |
| P/E | 50.5 | 40.8 | 32.2 | 31.2 | 36.7 | 24.4 | 20.5 |
| P/BV | 9.7 | 7.7 | 6.5 | 5.6 | 5.0 | 4.4 | 3.8 |
| EV/Sales | 3.1 | 2.6 | 2.2 | 2.4 | 2.6 | 2.1 | 1.8 |
| EV/EBITDA | 22.7 | 18.1 | 14.8 | 15.2 | 16.5 | 11.9 | 10.0 |
| Dividend Yield (%) | 0.2 | 0.3 | 0.5 | 0.8 | 0.7 | 1.0 | 1.2 |
| FCF per share | 11.1 | 22.4 | 15.7 | 33.0 | 38.3 | 43.0 | 46.4 |
| Return Ratios (%) | | | | | | | |
| RoE | 20.8 | 21.0 | 21.9 | 19.2 | 14.4 | 19.2 | 19.9 |
| RoCE | 15.1 | 16.5 | 18.3 | 16.4 | 12.7 | 17.5 | 18.6 |
| RoIC | 16.4 | 19.4 | 22.6 | 20.1 | 16.7 | 25.4 | 29.4 |
| Working Capital Ratios | | | | | | | |
| Fixed Asset Turnover (x) | 2.8 | 2.5 | 2.3 | 1.7 | 1.4 | 1.6 | 1.6 |
| Asset Turnover (x) | 2.3 | 2.3 | 2.4 | 1.9 | 1.7 | 1.8 | 1.8 |
| Inventory (Days) | 29 | 28 | 26 | 29 | 29 | 29 | 29 |
| Debtor (Days) | 50 | 56 | 45 | 36 | 36 | 36 | 36 |
| Creditor (Days) | 56 | 65 | 57 | 57 | 57 | 57 | 57 |
| Leverage Ratio (x) | | | | | | | |
| Net Debt/Equity | 0.2 | 0.0 | 0.0 | -0.1 | -0.2 | -0.3 | -0.4 |

| Consolidated - Cash Flow Statement | (INR m) | | | | | | |
|------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY17 | FY18 | FY19 | FY20 | FY21E | FY22E | FY23E |
| OP/(Loss) before Tax | 4,646 | 5,793 | 7,331 | 7,466 | 5,964 | 9,150 | 10,867 |
| Depreciation | 2,905 | 3,216 | 3,762 | 4,143 | 4,167 | 4,569 | 5,102 |
| Interest & Finance Charges | 289 | 215 | 233 | 169 | -296 | -541 | -654 |
| Direct Taxes Paid | -1,337 | -2,095 | -2,337 | -2,256 | -1,485 | -2,298 | -2,728 |
| (Inc)/Dec in WC | -563 | -18 | 305 | 538 | 36 | -83 | -54 |
| CF from Operations | 5,941 | 7,111 | 9,294 | 10,060 | 8,386 | 10,796 | 12,534 |
| Others | -570 | 310 | -310 | 54 | 0 | 0 | 0 |
| CF from Operating incl EO | 5,371 | 7,421 | 8,983 | 10,114 | 8,386 | 10,796 | 12,534 |
| (Inc)/Dec in FA | -3,804 | -4,264 | -6,776 | -5,472 | -3,000 | -4,750 | -6,000 |
| Free Cash Flow | 1,567 | 3,157 | 2,207 | 4,642 | 5,386 | 6,046 | 6,534 |
| (Pur)/Sale of Investments | 190 | -104 | 137 | -1,243 | 0 | 0 | 0 |
| CF from Investments | -3,607 | -4,355 | -7,252 | -6,706 | -2,549 | -4,075 | -5,213 |
| Issue of Shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Inc/(Dec) in Debt | -861 | 396 | -762 | -542 | -1,000 | -1,000 | 0 |
| Interest Paid | -299 | -208 | -233 | -169 | -156 | -134 | -134 |
| Dividend Paid | -63 | -423 | -678 | -1,865 | -1,367 | -2,061 | -2,449 |
| CF from Fin. Activity | -1,224 | -236 | -1,673 | -2,576 | -2,523 | -3,195 | -2,583 |
| Inc/Dec of Cash | 540 | 2,830 | 59 | 832 | 3,314 | 3,526 | 4,738 |
| Opening Balance | 1,656 | 2,196 | 5,026 | 5,377 | 6,209 | 9,523 | 13,048 |
| Closing Balance | 2,196 | 5,026 | 5,084 | 6,209 | 9,523 | 13,048 | 17,787 |

| 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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