



## Fundamentals Remain Intact Despite A Subdued Quarter; Maintain BUY

Endurance Technologies Ltd. (ENDU) reported a subdued Q2FY22 performance, primarily due to the steep decline in Europe PV production and RM cost pressures on the domestic side. The consolidated revenue stood at Rs 1,888 Cr (our estimate – Rs 1,868 Cr), up 11% QoQ. EBITDA was reported at Rs 260 Cr (our estimate – Rs 308 Cr), down 17% YoY. This was owing to the weaker performance in Europe, driven by a steeper-than-expected decline in the PV industry production on account of semi-conductor shortages. The company's EBITDA Margins stood at 13.8%, down 65bps QoQ (our estimate – 16.5%). PAT came in at Rs 133 Cr, down 20% YoY.

ENDU has been a leading auto ancillary with expertise in manufacturing technology-oriented products viz., Aluminium casting, Suspension, Braking System, and Transmission which happen to be crucial for the ride quality and performance of the vehicles. ENDU offers strong management, a diverse revenue profile, improving technological content, increasing wallet share of customers, and financial discipline. ENDU's European operations have been rationalizing its business both across logos and the technology i.e. the share of VW has been rising over the last couple of years. The share of EV/Hybrid technology is expected to increase in the near future as the demand in Europe shifts towards less polluting vehicles to reduce carbon footprint. In this backdrop, we expect the company to post Revenues/EBITDA/PAT CAGR of ~22%/31%/34% over FY21-23E. **We maintain a BUY rating on the stock and value it at 30x FY23E P/E to arrive at a target price of Rs 2,000/share, implying an upside of 10% from CMP.**

### Key Concall Takeaways

- **Domestic business:** The domestic business reported a 16.5% YoY growth in Q2FY22 against a 6% YoY degrowth exhibited by the 2W industry. This was primarily driven by the better performance of the company's key customer Bajaj Auto and higher market share gains with other 2W OEM players such as Hero, HMSI, TVS, and Yamaha. The company's growth was in high single-digit even after excluding the impact of metal prices and government incentives.
- **EU business:** European revenues declined 19.5% YoY (23.5% YoY excluding the benefit of pass-through of metal prices) and 29% QoQ. EBITDA Margins declined by 450bp YoY and 440bps QoQ to 12.3% and were impacted by higher RM as well as operating deleverage. The PV Industry in the EU (including the UK) declined 23.6% YoY in Q2FY22 due to the shortage of semiconductors. We expect this to normalize gradually as OEMs can manufacture vehicles in line with the demand. Net profit declined 67% YoY to Rs 11 Cr.
- **2W Industry demand remains subdued:** The 2W industry production in India was impacted by weak rural demand (weighing on entry-level 2Ws) and shortage of ABS ECUs (impacting the production for 150cc+ motorcycles). Despite this, ENDU outperformed the industry driven by (1) Better performance by key customer Bajaj which benefitted from exports, (2) Market share gains and new order ramp-up in brakes and castings, and (3) benefit of higher realization due to pass-through of higher RM prices.

### Outlook & Valuation

We remain positive on ENDU's growth story given that it can ride the premiumization theme among 2Ws and its increasing content per vehicle with the introduction of value-added products. Furthermore, the increased focus and traction on EV-related products provide more clarity on the growth in the longer term. Driven by new customer wins and a technology-led increase in content, we estimate ENDU to outperform the underlying 2W industry in India. However, we cut our FY22E EPS estimates by 8.4% to factor in weak 2W OEM demand and adverse impact of chip shortage in India and EU businesses. We estimate consolidated Revenue/EBITDA/PAT to deliver CAGR of ~22%/31%/34% over FY21-23E, with the scope of a surprise coming from the ramp-up in the India PV business as well as a content increase in suspension and the braking business. **We maintain a BUY rating on the stock and value it at 30x FY23E P/E to arrive at a target price of Rs 2,000/share, implying an upside of 10% from CMP.**

### Key Financials (Consolidated)

(Rs Cr)	FY20	FY21	FY22E	FY23E
Net Sales	6,918	6,547	8,003	9,698
EBITDA	1,131	1,040	1,217	1,797
Net Profit	566	519	666	938
EPS (Rs)	40.2	36.9	47.3	66.7
PER (x)	34.7	37.8	29.5	20.9
EV/EBITDA (x)	17.2	18.8	15.7	10.3
P/BV (x)	6.5	5.5	4.9	4.2
RoE (%)	19.6	15.8	17.1	20.9

Source: Company, Axis Research

(CMP as of November 12, 2021)

CMP (Rs)	1,816
Upside /Downside (%)	10%
High/Low (Rs)	1,981/1,022
Market cap (Cr)	25,548
Avg. daily vol. (6m) Shrs.	74,903
No. of shares (Cr)	14

### Shareholding (%)

	Mar-21	Jun-21	Sep-21
Promoter	75.0	75.0	75.0
FII/FPIs	9.9	8.3	8.0
MFs / UTI	9.5	9.4	8.6
Banks / FIs	0.0	0.0	0.2
Public	5.7	7.3	8.2

### Financial & Valuations

Y/E Mar (Rs. Cr)	FY21A	FY22E	FY23E
Net Sales	6,547	8,003	9,698
EBITDA	1,040	1,217	1,797
Net Profit	519	666	938
EPS (Rs)	36.9	47.3	66.7
PER (x)	37.8	29.5	20.9
EV/EBITDA (x)	18.8	15.7	10.3
P/BV (x)	5.5	4.9	4.2
ROE (%)	15.8	17.1	20.9

### Change in Estimates (%)

Y/E Mar	FY22E	FY23E
Sales Growth (%)	(4.1)	2.5
PAT Growth (%)	(14.2)	5.0
EBITDA Margin (%)	(8.4)	6.8

### Axis vs Consensus

EPS Estimates	2022E	2023E
Axis	47.3	66.7
Consensus	47.9	60.8
<b>Mean Consensus TP (12M)</b>		<b>1,732</b>

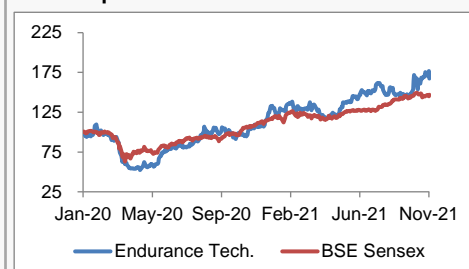
### ESG disclosure Score\*\*

Environmental Disclosure	N.A.
Social Disclosure Score	N.A.
Governance Disclosure Score	N.A.
Total ESG Disclosure Score	N.A.

Source: Bloomberg, Scale: 0.1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2021/20 disclosures

### Relative performance



Source: Capitaline, Axis Securities

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## Key Concall Highlights

- **Healthy Order Wins:** In Q2FY22, the company won orders of Rs 240 Cr (vs. Rs 53.1 Cr in the last quarter) from the top domestic OEMs such as Hyundai, TTMT, HMCL, and MM while receiving RFQ of Rs 20 Bn. It started supplies of several high-margin products such as 1) 200cc+ ABS brake assemblies, 2) Aluminium cylinder-head low-pressure die castings for non-automotive applications. In Europe, it has won orders worth EUR 10 Mn from OEMs like Porsche, Daimler, CNH, and Stellantis. Over the last 3 years, it has won new business worth EUR 130 Mn for electric and hybrid vehicles with peak revenue expected in FY27. EUR 35 Mn of the said total is for BEVs from Audi, and Porsche, etc. and EUR 95 Mn are for hybrid cars of VW, BMW, Porsche, and Maserati among others.
- **Increasing EV supplies:** ENDU has started supplying brakes, suspension, and casting products to EV OEMs. It is already supplying to major 2W OEMs like Bajaj and is also in advanced stages of discussion with new-age EV OEMs. The company has recently won an order to supply brake systems to Ather worth Rs 500 Mn per annum and the supplies will start in Q1FY23. On the casting side, it is supplying products such as battery housings, terminal grounds, upper and middle plates, and motor housings, among others. The management noted that the weight of castings in EV is likely to be slightly lower than ICE but several parts are more. Apart from OEMs, it is also working on supplying casting products to tier 1 EV suppliers.
- **Expanding into non-auto die casting business:** ENDU's die-casting business growth is being aided by an increasing share of fully finished or machined castings where margins are higher. Apart from this, the company is also focusing on the non-auto side and has won orders worth Rs 110 Cr to supply machined aluminium castings to Sanmina (5G telecom components) and Generac (power Genset components). This business is expected to start in Apr'22 and will be catered to from ENDU's Chakan and Vallam plants. The company is also focusing on getting more order wins on the non-auto side.
- **Focusing on growing alloy wheel business:** The company is in the process of increasing monthly alloy wheel capacity at its Chakan plant from 240k to 320k. While higher capacity was scheduled to come on stream by Oct'21, it has been delayed to Dec'21. ENDU has won orders from Bajaj and Yamaha and is in the advanced stages of discussions to supply to other major OEMs as well. The management noted that given a decent margin in this business, the company is now open to further expanding its capacity.
- **Status of new products and plants:** The management noted that 2W ABS supplies started at the end of Sep'21 but they have been restricted due to semiconductor shortage. The company plans to achieve a run rate of 400k units per annum (p.a) by Jul-Aug'22 as the supply of semi-conductor improves. The market is 3.5 Mn p.a with Bosch having an 85% market share. A new plant for brake assemblies will operate at full capacity in Mar'22 and the second plant set up in Waluj is to start operations by this month-end. It has started supplies of brakes for Motorcycles over 200cc from Sep'21. Clutch supplies are expected to start from Jan'22. The company has also started supplies of cylinder heads (720k per annum).

## Others

- The company continues to explore the inorganic route to enter into new product segments. Additionally, it is also looking at the organic route and working on two projects which are in the advanced stages. These involve technology and EV-agnostic products which will be eligible for the PLI scheme as well.
- Commodity pressures have continued to be very high especially for silicon and aluminium alloy. Steel has stabilised a bit which is positive. Magnesium based aluminium alloy is used in EU operations. It is not facing any supply issues so far and expects the situation to improve from Feb'22 onwards.

**Result Update (Consolidated)**
**(Rs Cr)**

(Rs Cr)	Quarterly Performance				
	Q2FY22	Q2FY21	% Change (YoY)	Q1FY22	% Change (QoQ)
<b>Sales</b>	<b>1,888</b>	<b>1,770</b>	7	<b>1,694</b>	11
<b>Expenditure</b>					
Net Raw Material	1096	929	18	878	25
Personnel	165	168	(2)	194	(15)
Purchase of traded Goods	10	27	(64)	33	(70)
Other Exp.	357	333	7	344	4
<b>Total Expenditure</b>	<b>1628</b>	<b>1457</b>	12	<b>1449</b>	12
<b>EBITDA</b>	<b>260</b>	<b>313</b>	(17)	<b>244</b>	6
Oth. Non Op. Inc.	8	7.1	15	12.7	(35)
Interest	1.8	3.5	(49)	1.5	23
Depreciation	94.0	97.3	(3)	98.3	(4)
Exceptional Items	0.0	0.0		0.0	
<b>PBT</b>	<b>172.4</b>	<b>219.5</b>	(21)	<b>157.3</b>	10
Tax	39	52	(25)	29.3	33
<b>PAT</b>	<b>133.3</b>	<b>167.2</b>	(20)	<b>128.0</b>	4
EPS (Rs.)	9.5	11.9	(20)	9.1	4

Source: Company, Axis Securities

**Financials (Consolidated)**
**Profit & Loss**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>6,918</b>	<b>6,547</b>	<b>8,003</b>	<b>9,698</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>6,918</b>	<b>6,547</b>	<b>8,003</b>	<b>9,698</b>
Cost of goods sold	4,634	4,459	5,267	6,162
Contribution (%)	33.0%	31.9%	34.2%	36.5%
Advt/Sales/Distrn O/H	1,152.7	1,048.3	1,519.4	1,739.3
<b>Operating Profit</b>	<b>1,131</b>	<b>1,040</b>	<b>1,217</b>	<b>1,797</b>
Other income	48	31	42	35
<b>PBIDT</b>	<b>1,178</b>	<b>1,071</b>	<b>1,259</b>	<b>1,832</b>
Depreciation	414	399	381	571
Interest & Fin Chg.	18	14	7	7
E/o income / (Expense)	0.0	(11.3)	0.0	0.0
<b>Pre-tax profit</b>	<b>747</b>	<b>647</b>	<b>870</b>	<b>1,253</b>
Tax provision	181	127	204	315
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
<b>Adjusted PAT</b>	<b>566</b>	<b>528</b>	<b>666</b>	<b>938</b>
<b>Reported PAT</b>	<b>566</b>	<b>519</b>	<b>666</b>	<b>938</b>

Source: Company, Axis Securities

**Balance Sheet**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>Total assets</b>	<b>3,620</b>	<b>4,009</b>	<b>4,394</b>	<b>4,925</b>
Gross block	4,058.0	4,276.5	4,726.5	5,226.5
Net Block	2,443.9	2,350.9	2,419.6	2,348.3
CWIP	126.0	173.8	160.0	160.0
Goodwill	162.4	174.0	174.0	174.0
Investments	322.8	527.5	527.5	527.5
Wkg. cap. (excl cash)	-56	269	291	365
Cash / Bank balance	620.9	513.3	822.5	1,349.8
Misc. Assets	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>3,620</b>	<b>4,009</b>	<b>4,394</b>	<b>4,925</b>
Equity capital	140.7	140.7	140.7	140.7
Reserves	2,865	3,421	3,875	4,559
Minority Interests	0.0	0.0	0.2	0.3
Borrowings	638	507	407	257
Def tax Liabilities	(24.2)	(59.7)	(28.4)	(31.4)

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E March	FY20	FY21	FY22E	FY23E
<b>Sources</b>	<b>875</b>	<b>701</b>	<b>767</b>	<b>1,102</b>
Cash profit	997	932	1,054	1,517
(-) Dividends	187	0	212	254
Retained earnings	811	932	842	1,262
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	65.9	38.2	0.1	0.1
Borrowings	5	-131	-100	-150
Others	-6	-139	24	-10
<b>Applications</b>	<b>875</b>	<b>701</b>	<b>767</b>	<b>1,102</b>
Capital expenditure	739.5	204.3	436.2	500.0
Investments	129.9	278.3	0.0	0.0
Net current assets	(77.0)	325.8	21.4	74.7
Change in cash	83.0	(107.6)	309.2	527.3

Source: Company, Axis Securities

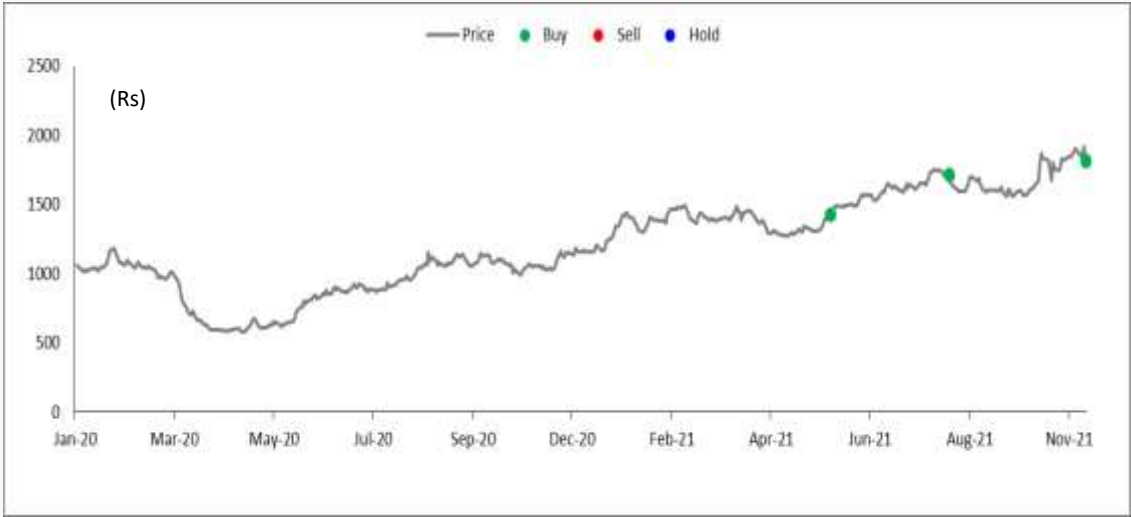
**Ratio Analysis**

(%)

Y/E March	FY20	FY21A	FY22E	FY23E
<b>Sales growth</b>	<b>(7.9)</b>	<b>(5.4)</b>	<b>22.2</b>	<b>21.2</b>
<b>OPM</b>	<b>16.3</b>	<b>15.9</b>	<b>15.2</b>	<b>18.5</b>
Oper. profit growth	0.2	(8.0)	17.0	47.6
COGS / Net sales	67.0	68.1	65.8	63.5
Overheads/Net sales	16.7	16.0	19.0	17.9
Depreciation / G. block	10.2	9.3	8.1	10.9
Effective interest rate	3.2	2.8	1.9	3.0
Net wkg.cap / Net sales	-0.00	0.02	0.03	0.03
Net sales / Gr block (x)	1.7	1.5	1.7	1.9
<b>RoCE</b>	<b>23.7</b>	<b>18.1</b>	<b>21.1</b>	<b>27.3</b>
Debt / equity (x)	0.18	0.12	0.08	0.04
Effective tax rate	24.2	19.7	23.5	25.2
<b>RoE</b>	<b>19.6</b>	<b>15.8</b>	<b>17.1</b>	<b>20.9</b>
Payout ratio (Div/NP)	33.0	0.0	31.8	27.1
<b>EPS (Rs.)</b>	<b>40.2</b>	<b>36.9</b>	<b>47.3</b>	<b>66.7</b>
EPS Growth	14.2	(8.1)	28.1	40.9
CEPS (Rs.)	69.7	65.3	74.4	107.3
DPS (Rs.)	11.0	0.0	12.5	15.0

Source: Company, Axis Securities

### Endurance Tech Price Chart and Recommendation History



Date	Reco	TP	Research
24-May-21	BUY	1,664	Result Update
13-Aug-21	BUY	1,886	Result Update
15-Nov-21	BUY	2,000	Result Update

Source: Axis Securities

**About the analyst****Analyst:** Darshan Gangar**Contact Details:** darshan.gangar@axissecurities.in**Sector:** Auto**Analyst Bio:** Darshan Gangar is Chartered Accountant with over two years of research experience in the Mid Cap space and Auto sector.**Disclosures:**

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