

ENDURANCE TECHNOLOGIES LIMITED

European weakness to be offset by domestic strength

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Endurance Technologies (Endu) reported consolidated revenues of ₹25.5 bn, up 3.9% qoq and 7.8% yoy. Reduction in Maharashtra state incentives from ₹340 mn to ₹240 mn yoy also had some impact on the numbers. EBITDA margins came in at 12.1% in domestic business while European margins were at 12.4% down from 14.6% qoq on weakness in European demand. The EBITDA margins at the domestic level were up 40 bps up yoy as the RM cost tailwinds were seen in the quarter and also due to firmness in the domestic 2W volumes. Consol PAT grew 17.5% yoy at ₹1.56 bn, while EBITDA margins came in at 12.5%, up 40 bps yoy and down by 60 bps qoq.

Robust order wins to boosts investor confidence

Endu has won several orders during H1 FY24 and has also received RFQs worth ₹19 bn from various OEMs in India and abroad. ₹7.7 bn worth new orders were won in H1 FY24 excluding orders from Bajaj Auto. Out of cumulative ₹36.64 bn (₹25.71 bn was the new business orders, while ₹10.93 bn was replacement order), the company catered ₹4.4 bn in FY 23, while order pipeline of ₹8.2 bn would be addressed in FY 24E and ₹10 bn would be completed in FY25E-26E. Apart from this, the company has started work on new order worth ₹1.25 bn from HMSI in H1 FY24. The other major order wins mainly consist orders from Suzuki (front forks worth ₹1.4 bn in FY 23 and ₹0.25 bn in H1FY24), New 4W order of ₹0.24bn for forging exports to JLR and ₹0.58 bn for castings to Punch Power Train. Endu has also supplied Aluminum die castings, alloy wheels, suspensions and braking components for certain new launches in the premium motorcycle segment. TVS suspension and alloy wheels order passed ₹5bn this quarter, while the latest orders from TVS are for IFF and monoshox worth ₹0.27 bn. The total order wins by Endu in the EV space is ₹0.19 bn in H1 FY24 from Bajaj Auto, Aether Energy, Hero Electric, Mahindra Electric, TVS, Tata Motors, Ampere, Okinawa and Bounce. The order wins from EV segment reduced this quarter as FAME-2 subsidy got withdrawn from July 23.

The company supplies ABS assemblies to Bajaj Auto & Royal Enfield and has reached peak production of 400K this month, while with increasing demand, the company has taken it up to 600K units and plans to take it at 1.2 mn units per annum by H2 FY25. As a value added product, Endu has started manufacturing Valves for ABS from March 23 which is considered to be a high margin business. Endu has started supplies of a new product - Driveshafts at their Waluj plant for OEMs such as M&M, TVS and Bajaj Auto after the commercial production commenced in July 2022. Endu is expanding its Alloy wheels capacity from 4.5 mn units to 5.5 mn in April 2024 to supply Bajaj Auto, Yamaha, TVS and Hero Electric.

Key Financials	FY 22	FY 23	FY 24E	FY 25E
Total sales (₹ bn)	75.5	88.0	99.8	117.4
EBITDA margins (%)	12.8%	11.8%	12.9%	13.6%
PAT margins (%)	6.1%	5.4%	6.6%	7.5%
EPS (₹)	35.0	34.8	46.8	62.4
P/E (x)	51.0	49.0	35.7	26.8
P/BV (x)	6.0	5.3	4.7	4.1
EV/EBITDA (x)	24.1	22.7	18.2	14.4
ROE (%)	11.8%	10.9%	13.3%	15.5%
ROCE (%)	13.9%	12.6%	15.2%	18.0%

Rating	BUY
Current Market Price (₹)	1,626
12M Price Target (₹)	1,871
Potential upside (%)	15

Stock Data

Sector :	Auto Components
FV (₹) :	10
Total Market Cap (₹ bn) :	228
Free Float Market Cap (₹ bn) :	57
52-Week High / Low (₹) :	1,751 / 1,179
12M Avg. Dly Traded Volume (in lakh)	0.84
BSE Code / NSE Symbol	ENDURANCE / 540153
Bloomberg :	ENDU IN

Shareholding Pattern

(%)	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	75.00	75.00	75.00	75.00
FPIs	8.31	7.34	7.65	7.65
MFs	8.75	9.00	9.44	9.40
Insurance	5.99	6.72	6.08	6.08
Others	1.95	1.94	1.83	1.87

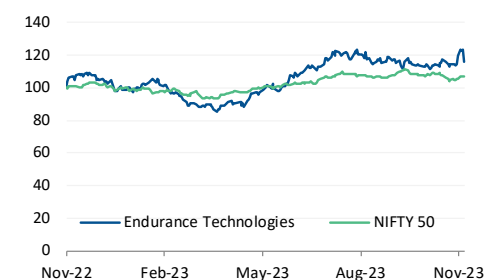
Source: BSE

Price Performance

(%)	1M	3M	6M	12M
Endurance	4.6%	-1.9%	17.7%	16.3%
Nifty 50	-0.6%	-1.2%	6.2%	6.8%

* To date / current date : November 9, 2023

Endurance vs Nifty 50



Furthermore, in order to supply Disc Brake assemblies to HMSI new business, Endu has started their second plant at Waluj, Aurangabad. The company has also ramped up its production to supply inverted front forks to KTM, HMSI, HMCL and Honda 2-wheelers. The company has won an order worth ₹2.5 bn from Hyundai Kia to supply castings for which the production is ramped up at their Vallam plant. Such a strong portfolio of orders and products will surely ensure strong growth visibility for the company in ensuing years.

In Europe, the company won orders worth €20 mn during H1 FY24, and has won orders worth €240 mn cumulative orders for last 5 years out of which 47% was for hybrid technology, while 37% was for EV and 16% for ICE. The H1 FY24 orders mainly came from VW for EV motor cover. Slowdown in Europe and certain regulatory hurdles led to tapering of EV order wins and slowdown in EV business during H1 FY24.

Maxwell losses reduce, strong potential to grow

Maxwell, the biggest acquisition of Endu, now contributes 0.7% of the consolidated business and has great potential to rapidly increase its contribution. The company reported ₹170 mn of topline in Q2 and ₹43 mn of EBITDA losses from ₹61 mn of losses yoy. This is due to reduction in gas and electricity prices in Europe and higher volumes. Its order book in the 2.5 years is ₹3.7 bn. This company has already commenced supply to Hero Motocorp worth ₹1 bn. ₹0.5 bn orders are also won from Ampere whose production shall start from Q4 FY 24. It has also received LOI from Hero Electric and Ampere worth ₹0.7 bn and ₹0.2 bn which are expected to start work from Q4 FY24. With a good order flow, we expect the company to reduce losses in the next 1-2 quarters and report profitable growth.

Quarterly Financial Snapshot

YE Mar (₹ mn)	Q2 FY24	Q1 FY24	% qoq	Q2 FY23	% yoy
Net sales	25,450	24,500	3.9%	23,606	7.8%
Raw material costs	15,317	14,485	5.7%	14,707	4.2%
Employee costs	2,124	2,187	-2.9%	1,742	21.9%
Other expenses	4,826	4,615	4.6%	4,441	8.7%
EBITDA	3,183	3,212	-0.9%	2,716	17.2%
EBITDA margins (%)	12.5%	13.1%	(100 bps)	11.5%	40 bps
Other income	155	166	-6.4%	84	84.1%
Depreciation	1,184	1,129	4.8%	992	19.3%
Interest expenses	98	90	9.0%	61	60.9%
PBT	2,056	2,159	-4.8%	1,747	17.7%
Tax	511	524	-2.6%	432	18.3%
Adj. PAT	1,546	1,635	-5.5%	1,315	17.5%
Adj EPS	10.99	11.62	-5.5%	9.35	17.5%
Exceptional items	-	-	-	-	-
Reported PAT	1,546	1,635	-5.5%	1,315	17.5%

Source: Company, LKP Research

Outlook and Valuation

We believe the company will continue to outperform the industry led by (1) Improvement in 2W demand in H2 FY24 and FY25 (after two weak years), and thereon led by strong underlying trends for scooterization and premiumization (2) addition of new and value added products (ABS supply ramp-up over FY23 aided by valves business, driveshafts for Bajaj including LCVs and 3Ws, entry into crankshaft business, non-automotive castings, alloy wheels, disc brakes, suspensions - front and inverted forks etc.), (3) ramp-up in EV products (EV order book of ~₹6bn excl. Maxwell) and (4) increasing share of after markets and exports (though temporarily subdued). Furthermore, ABS supplies should ramp-up leading to higher revenues for the company. In India, rising order book should take care of some pressure seen in the EU operations including chip shortage there, higher power costs (though they are reduced now), recession and other supply chain issues.

However, with the main inhibitor of profitable growth in EU; the energy costs which are softening from Q3, we anticipate surge in margins there as well. The array of acquisitions in Europe should spice up the business there. Higher operating leverage stemming from higher demand from 2Ws should lead to better margin performance. The strength in Endu's business franchisee and experienced management should help the stock to continue commanding premium valuation multiples in comparison to most domestic auto ancillary companies. In the latter, there are only a handful of high-quality, large-scale, multi-product auto component suppliers. Considering Endurance's size and strong market share (leadership position in some segments) in its operating segments, the stock should command a premium to its domestic peers. We maintain our BUY rating FY 25E target price of ₹1,871 (valued @ 30x multiple). Currently the stock is trading at 27x multiple FY 25E earnings.

Income Statement

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Total Revenues	75,491	88,040	99,795	117,445
Raw Material Cost	44,201	53,295	59,816	70,411
Employee Cost	6,944	7,636	8,364	9,326
Other Exp	14,700	16,747	18,776	21,687
EBITDA	9,646	10,362	12,840	16,021
<i>EBITDA Margin(%)</i>	<i>12.8%</i>	<i>11.8%</i>	<i>12.9%</i>	<i>13.6%</i>
Other Income	410	455	630	720
Depreciation	3,817	4,216	4,533	4,819
EBIT	5,829	6,146	8,307	11,202
<i>EBIT Margin(%)</i>	<i>7.7%</i>	<i>7.0%</i>	<i>8.3%</i>	<i>9.5%</i>
Interest	64	206	245	305
PBT	6,176	6,395	8,692	11,617
<i>PBT Margin(%)</i>	<i>8.2%</i>	<i>7.3%</i>	<i>8.7%</i>	<i>9.9%</i>
Tax	1,254	1,497	2,108	2,843
PAT	4,922	4,899	6,584	8,774
<i>PAT Margins (%)</i>	<i>6.5%</i>	<i>5.6%</i>	<i>6.6%</i>	<i>7.5%</i>
Exceptional items	315	103	0	0
Adj PAT	4,607	4,796	6,584	8,774
<i>Adj PAT Margins (%)</i>	<i>6.1%</i>	<i>5.4%</i>	<i>6.6%</i>	<i>7.5%</i>

Key Ratios

YE Mar	FY 22	FY 23	FY 24E	FY 25E
Per Share Data (₹)				
Adj. EPS	35.0	34.8	46.8	62.4
CEPS	59.9	64.1	79.0	96.6
BVPS	278.7	313.7	351.9	402.9
DPS	6.0	6.2	8.6	11.4
Growth Ratios(%)				
Total revenues	15.3%	16.6%	13.4%	17.7%
EBITDA	-7.3%	7.4%	23.9%	24.8%
PAT	-7.3%	-0.5%	34.4%	33.3%
EPS Growth	-7.3%	-0.5%	34.4%	33.3%
Valuation Ratios (X)				
PE	51.0	49.0	35.7	26.8
P/CEPS	27.9	26.1	21.1	17.3
P/BV	6.0	5.3	4.7	4.1
EV/Sales	3.1	2.7	2.3	2.0
EV/EBITDA	24.1	22.7	18.2	14.4
Operating Ratios (Days)				
Inventory days	57.9	56.2	54.0	53.0
Receivable Days	46.9	48.2	47.0	47.0
Payables day	60.0	59.1	57.0	55.0
Net Debt/Equity (x)	0.05	0.06	0.07	0.07
Profitability Ratios (%)				
ROCE	13.9%	12.6%	15.2%	18.0%
ROE	11.8%	10.9%	13.3%	15.5%
Dividend payout	18.3%	18.3%	18.3%	18.3%

Balance Sheet

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
Equity and Liabilities				
Equity Share Capital	1,407	1,407	1,407	1,407
Reserves & Surplus	37,793	42,715	48,094	55,263
Total Networth	39,200	44,121	49,501	56,669
Total debt	1,939	2,781	3,281	3,781
Net Deferred Tax	6	5	5	5
Long term provisions	859	1,809	1,809	1,809
Current Liab & Prov				
Trade payables	12,413	14,257	15,584	17,697
Short term provisions	640	1,149	1,149	1,149
Other current liabilities	3,518	3,901	3,901	3,901
Total current liab and privs	16,571	19,307	20,634	22,747
Total Equity & Liabilities	58,575	68,024	75,230	85,012
Assets				
Net block	24,558	26,347	29,814	31,814
Capital WIP	1,191	1,684	1,984	2,284
Other non current assets	1,743	2,968	2,968	2,968
Total fixed assets	30,083	36,106	39,874	42,174
Cash and Bank	4,026	2,877	4,442	8,276
Inventories	7,011	8,206	8,850	10,224
Trade receivables	9,703	11,620	12,850	15,123
Loan, Advances & others	2,895	2,751	2,751	2,751
Other current assets	4,856	6,464	6,464	6,464
Total current Assets	28,491	31,918	35,357	42,838
Total Assets	58,575	68,024	75,230	85,012

Cash Flow

(₹ mn)	FY 22	FY 23	FY 24E	FY 25E
PBT	5,861	6,293	8,692	11,617
Depreciation	3,817	4,216	4,533	4,819
Interest	57	196	245	305
Chng in working capital	(397)	(413)	(547)	(1,535)
Tax paid	(1,600)	(1,849)	(2,108)	(2,843)
Other operating activities	(323)	0	0	0
Cash flow from operations (a)	7,416	8,619	10,815	12,364
Capital expenditure	(5,290)	(6,362)	(8,300)	(7,119)
Chng in investments	0	0	0	0
Other investing activities	4	21	0	0
Cash flow from investing (b)	(5,512)	(9,146)	(8,300)	(7,119)
Free cash flow (a+b)	1,903	(527)	2,515	5,245
Inc/dec in borrowings	(1,837)	282	500	500
Dividend paid (incl. tax)	(844)	(879)	(1,205)	(1,606)
Interest paid	(67)	(40)	(245)	(305)
Cash flow from financing (c)	(1,105)	(1,150)	1,565	3,834
Net chng in cash (a+b+c)	5,132	4,027	2,877	4,442
Closing cash & cash equivalents	4,027	2,877	4,442	8,276

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