

CMP: ₹ 1,450

Target: ₹ 1,565 (8%)

Target Period: 12 months

HOLD

July 20, 2022

Steady financials, await ramp up at new age EV OEMs

About the stock: Endurance Technologies (ETL) is the largest aluminium die casting company in India by installed capacity and also a leading (top-two) player by market share in other served segments i.e. suspension, braking and transmission.

- FY22 product mix: - ~60% from 2-W, ~10% from 3-W, ~30% from PV
- FY22 geographical mix: - ~75% India; ~25% Europe

Q4FY22 Results: ETL reported healthy Q4FY22 results.

- Total operating income came in at ₹ 2,079 crore, up 10% QoQ
- EBITDA margin came in at 12.4%, up 160 bps QoQ
- PAT was up 45.2% QoQ at ₹ 136.2 crore

What should investors do? The stock appreciated at ~10.6% CAGR from ~₹ 890 in July 2017 over the past five years, outperforming the broader Nifty Auto index.

- We downgrade the stock from BUY to **HOLD** awaiting payout of recent acquisition in the EV domain & recovery of margins in foreign operations

Target Price and Valuation: Introducing FY24E, we now value ETL at ₹ 1,565 i.e. 28x P/E on FY24E EPS of ~₹ 55.9/share (earlier target price ₹ 1,575).

Key triggers for future price performance:

- With cash positive b/s, sweating of assets, easing raw material prices we see margins, RoCE ramping up to ~15%, ~18%, respectively, by FY24E
- Leading supplier domestically in the 2-W & 3-W space with strong business relations with Bajaj Auto, Royal Enfield (Eicher Motors), among others
- Amid strong order book and new order wins, we foresee sales, PAT growing at 11.4%, 30.6% CAGR, respectively, over FY22-24E
- RFQs and active discussion with new age OEMs in the E 2-W, E 3-W space, with management expectation to gain traction in this space in coming years
- Focus on increasing aftermarket sales with current share of revenues at ~5%

Alternate Stock Idea: In our auto- ancillary coverage we like Apollo Tyres.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with target price of ₹ 230



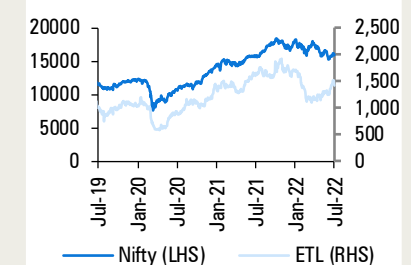
Particulars

Particulars	₹ crore
Market capitalisation	20,396
Total Debt (FY22P)	441
Cash & Inv. (FY22P)	888
EV (₹ crore)	19,950
52 week H/L (₹)	1989 / 1047
Equity capital (₹ crore)	140.7
Face value (₹)	10.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	75.0	75.0	75.0	75.0
FII	8.3	8.0	7.8	7.2
DII	15.2	15.3	15.7	15.9
Other	1.5	1.6	1.5	1.9

Price Chart



Recent event & key risks

- Acquired 51% stake in Maxwell Energy Systems Pvt Ltd (BMS sols)
- Key Risk:** (i) Higher than expected ramp up in 2-W, 3-W space for BMS business (ii) Loss of volumes on ICE powered 2-Ws

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	7,510.5	6,917.7	6,547.0	7,549.1	6.6	8,681.5	9,376.0	11.4
EBITDA	1,128.8	1,130.8	1,040.2	964.6	6.5	1,143.9	1,384.2	19.8
EBITDA Margins (%)	15.0	16.3	15.9	12.8		13.2	14.8	
Net Profit	495.0	565.5	519.6	460.7	9.5	607.1	786.3	30.6
EPS (₹)	35.2	40.2	36.9	32.8		43.2	55.9	
P/E	41.2	36.1	39.3	44.3		33.6	25.9	
RoNW (%)	19.3	18.8	14.6	11.8		13.8	15.6	
RoCE (%)	22.5	19.1	15.3	13.3		15.3	17.7	

Source: Company, ICICI Direct Research

Detail on recent acquisition & key conference call highlights

Acquisition (Maxwell)

- The company has entered into a shares purchase agreement with shareholders of Maxwell Energy Systems Pvt Ltd (Maxwell), for acquiring 100% of its equity share capital in a phased manner
- Maxwell is in the business of embedded electronics, particularly in battery management systems for vehicles including electric vehicles (EV) and for stationary storage systems
- The company acquired 51% stake of Maxwell Energy Systems Pvt Ltd on July 1, 2022 with balance 49% to be acquired in a phased manner in five tranches, spread over five years
- Total consideration to be paid by Endurance for the acquisition is ₹ 308 crore (₹ 135 crore upfront for 51% stake and ₹ 173 crore spread out over five years linked to certain milestones)

Conference call Highlights (Q4FY22 Results)

- Disc brake assembly capacity to increase from last year's level of 2,85,000 numbers per month to 5,70,000 numbers per month through project executed in Pantnagar and larger project in the form of second brakes plant in Aurangabad commissioned in December 2021. Expected to reach 470000 number per month. from October 2022. Similarly, brake disc capacity to increase from 3,75,000 to 6,75,000 numbers per month
- In 2-W ABS space, 85% of market is controlled by one MNC. The market size for the same is 3.5 million assemblies. Deliveries had begun to the first customer in September 2021 and to the second customer in February 2022. Production is expected to reach installed capacity of 400000 units per annum by September 2022 with ETL being the only manufacturer that manufactures the entire assembly with ABS unit.
- On EV front, it has started production of drive shaft for Mahindra Alfa (E-3W) and also received Lol from TVS for Euro Max 3-W
- The company's' Chakan alloy wheel capacity to increase from 2,40,000 to 3,20,000 numbers per month from June/July 2022.
- On the aftermarket front, sales grew from ₹ 311.6 crore to ₹ 421 crore; the company is currently exporting to 30 countries with plans to add four more countries during FY23
- The company began operations in wire braided hoses plant in June 2021 finding use in high end bikes
- BMS remains an integral component for an EV, which acts as brain for battery and forms ~5% of EV cost. Further, this would be first EV specific product for the company. Through this, the company would like to participate in the electrification trend
- Capex during FY22 was ₹ 350 crore in India. Capex in Endurance Europe during FY22 was €21 mn (~₹ 170 crore)
- On the European operations front, during FY22 gas prices were up from 19 €/MwH in Q4FY21 to 99 €/MwH in Q4FY22 (up ~430% YoY) with electricity prices up from 59 €/MwH in FY21 to 248 €/MwH in Q4FY22 (up ~320% YoY)
- The company has booked ₹ 60 crore under Mega scheme during FY22. Further, till date, the company has booked ₹ 265 crore under the said scheme and received ₹ 147 crore from the Maharashtra government. Total receivables on this front is pegged at ₹ 446 crore (inclusive of booked income)

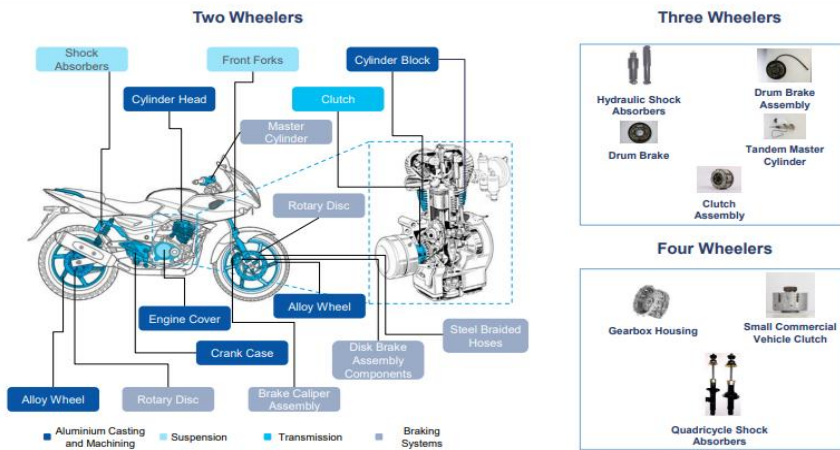
Key PPT Highlights

Exhibit 1: Product profile - India

India: Tier 1 Supplier of Diverse Product Offerings to OEMs



Endurance supplies a diverse range of technology-intensive products to 2W / 3W / 4W OEMs



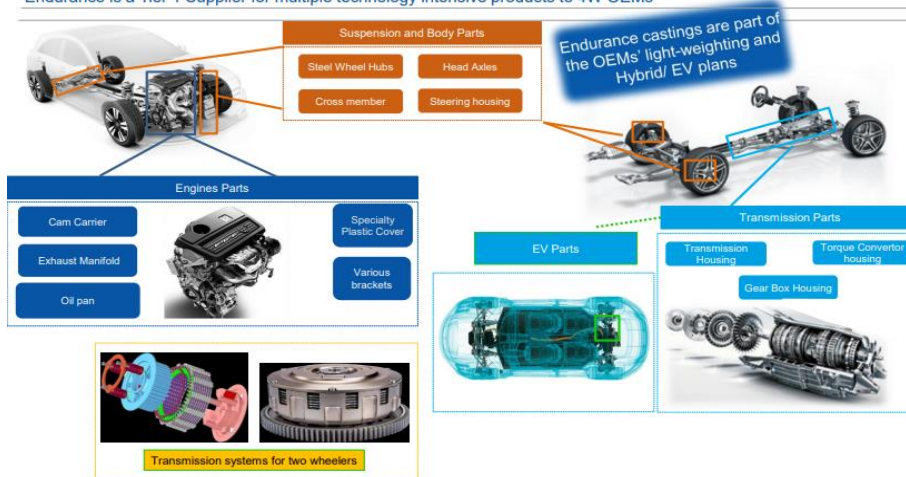
Source: Company, ICICI Direct Research

Exhibit 2: Product profile - Europe

Europe: Diverse Product Offerings to OEMs



Endurance is a Tier 1 Supplier for multiple technology intensive products to 4W OEMs



Source: Company, ICICI Direct Research

Exhibit 3: Updates on Maxwell Acquisition

- Maxwell is an advanced embedded electronics company with battery management system (BMS) as its flagship product.
- Deep technical expertise and experience of deploying 65000 units of BMS over 5-6 years.
- Such skills to be complemented by Endurance's strength in customer connect, supply chain and operations.
- 70 customers in 15 countries.
- Order book of Rs. 1.5 bn to be executed in 2-3 years.
- Order from one of India's largest 2W-3W OEMs.
- Robust sales and profit growth plan, including launch of new products.
- Revenue Rs. 35 mn, Rs. 66 mn, Rs. 91 mn, Rs. 195 mn in FY 19, FY20, FY21 and FY22 (unaudited) respectively. Expected revenue for FY 23 is Rs. 400 mn.
- Certifications including ISO 26262, MSIL D, ASIL C, CE.
- BMS algorithm with over 260 configurable parameters. Faster go-to-market.
- BMS application in 2W/3W/stationary storage. Initial foray into 4W BMS.
- Fits well with ETL strategy on embedded electronics R&D and product development. Maxwell has commenced R&D on telematics.
- Plan to strengthen technical resources. Head count expected to increase from sub-100 to 250.
- Acquisition involves upfront payment of Rs. 1.35 bn for 51% stake. Includes primarily component to cater to initial cash needs in Maxwell. Transaction expected to be consummated in June 2022.
- Remaining 49% payable over 5 years with variable payout maximum Rs. 1.73bn.

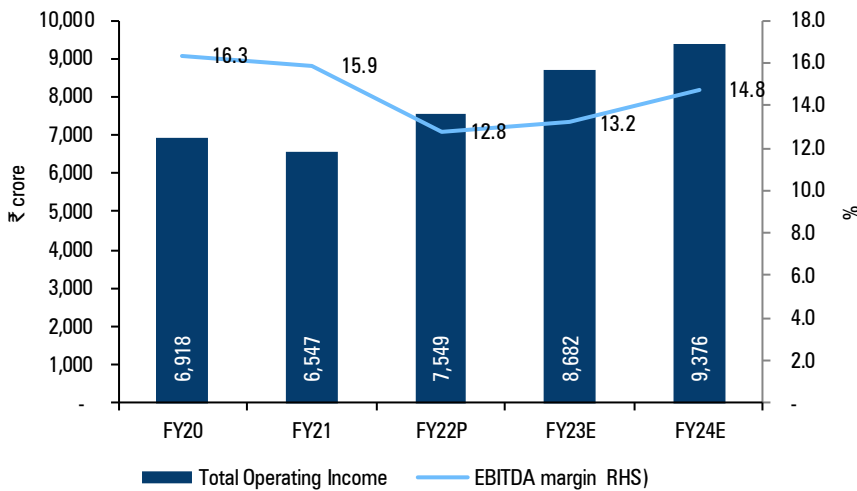
Source: Company, ICICI Direct Research

Maxwell has a strong order book of ₹ 150 crores for BMS which is an important part of an electric vehicle with ample growth opportunity & first EV specific product from company

Of current order book ~75-80% comes from India & ~70% comes for E-2W/3W.

Financial story in charts

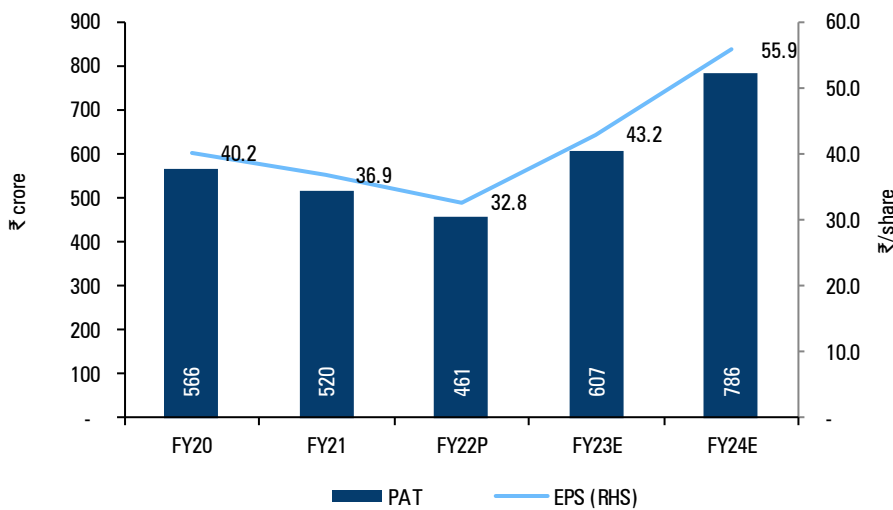
Exhibit 4: Trend in topline & EBITDA margins



Total operating income is expected to grow at 11.4% CAGR over FY22-24E to ₹ 9,376 crore, whereas margins to inch to 14.8% in FY24E.

Source: Company, ICICI Direct Research

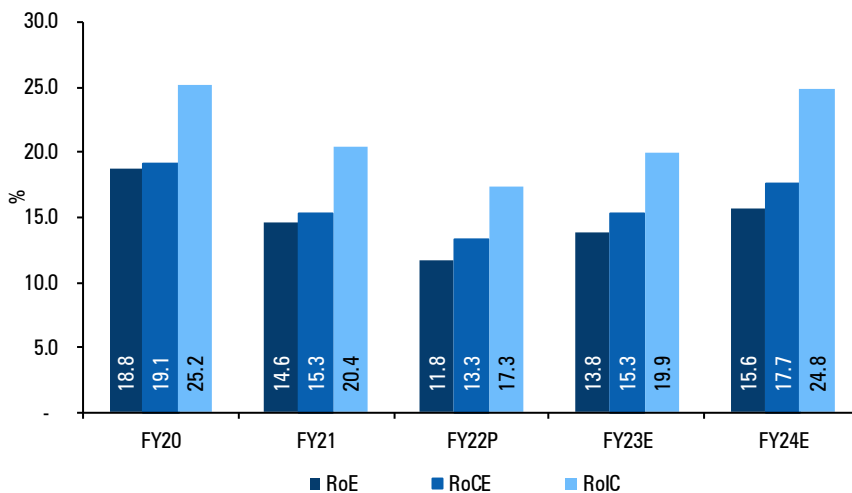
Exhibit 5: Trend in PAT & EPS



PAT is expected to grow at 30.6% CAGR over FY22-24E, amidst strong order wins and improved margins.

Source: Company, ICICI Direct Research

Exhibit 6: RoE, RoCE trend



Capital efficiency is at the core of ETL, return ratios are expected to be healthy in double digit

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Net Sales	6405.5	7398.2	8507.9	9188.5
Other Operating Income	141.5	151.0	173.6	187.5
Total Operating Income	6,547.0	7,549.1	8,681.5	9,376.0
Growth (%)	-5.4	15.3	15.0	8.0
Raw Material Expenses	3,570.6	4,420.1	5,174.1	5,531.9
Employee Expenses	676.1	694.4	716.2	750.1
Other Operating Expense	1,260.2	1,470.0	1,647.3	1,709.9
Total Operating Expenditure	5,506.8	6,584.5	7,537.6	7,991.9
EBITDA	1,040.2	964.6	1,143.9	1,384.2
Growth (%)	-8.0	-7.3	18.6	21.0
Depreciation	399.1	381.7	408.4	431.9
Interest	13.8	6.4	7.8	6.8
Other Income	30.7	41.0	55.6	69.1
PBT	658.0	617.6	783.3	1,014.6
Excep. charge & P/L from Asso.	-11.2	-31.5	0.0	0.0
Total Tax	127.2	125.4	176.2	228.3
PAT	519.6	460.7	607.1	786.3
Growth (%)	LP	-11.3	31.8	29.5
EPS (₹)	36.9	32.8	43.2	55.9

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	519.6	460.7	607.1	786.3
Add: Depreciation	399.1	381.7	408.4	431.9
(Inc)/dec in Current Assets	-575.0	-24.4	-353.2	-185.1
Inc/(dec) in CL and Provisions	250.0	-76.0	179.0	125.6
Others	-17.0	-34.7	-47.8	-62.3
CF from operating activities	576.7	707.4	793.4	1,096.4
(Inc)/dec in Investments	-171.1	-3.1	-94.4	-180.9
(Inc)/dec in Fixed Assets	-354.1	-515.3	-485.0	-500.0
Others	-68.0	-15.0	-10.0	-10.0
CF from investing activities	-593.2	-533.4	-589.4	-690.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-113.9	-175.4	-50.0	-50.0
Interest and Dividend outgo	-98.2	-94.3	-127.4	-161.6
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	120.9	-14.9	0.0	0.0
CF from financing activities	-91.2	-284.6	-177.4	-211.6
Net Cash flow	-107.7	-110.6	26.7	193.9
Opening Cash	620.7	513.0	402.3	429.0
Closing Cash	513.0	402.3	429.0	622.9

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	140.7	140.7	140.7	140.7
Reserve and Surplus	3,421.5	3,779.3	4,266.8	4,898.4
Total Shareholders funds	3,562.1	3,920.0	4,407.5	5,039.1
Total Debt	616.9	441.5	391.5	341.5
Deferred Tax Liability	0.5	0.6	0.6	0.6
Minority Interest / Others	82.4	85.9	90.9	95.9
Total Liabilities	4,261.9	4,448.0	4,890.5	5,477.0
Assets				
Gross Block	4,441.9	4,934.0	5,438.3	5,938.3
Less: Acc Depreciation	2,013.2	2,395.0	2,803.3	3,235.2
Net Block	2,428.6	2,539.0	2,634.9	2,703.1
Capital WIP	96.2	119.3	100.0	100.0
Total Fixed Assets	2,524.8	2,658.3	2,734.9	2,803.1
Investments & Goodwill	627.6	671.8	821.8	1,071.8
Inventory	611.8	701.1	815.8	881.1
Debtors	1,041.0	970.4	1,165.5	1,258.7
Loans and Advances	186.3	189.0	217.3	234.7
Other Current Assets	97.6	100.6	115.7	125.0
Cash	513.0	402.3	429.0	622.9
Total Current Assets	2,449.8	2,363.5	2,743.4	3,122.4
Current Liabilities	1,455.8	1,381.4	1,556.9	1,679.9
Provisions	29.9	28.3	31.8	34.4
Current Liabilities & Prov	1,485.7	1,409.7	1,588.7	1,714.3
Net Current Assets	964.1	953.8	1,154.7	1,408.1
Others Assets	145.1	163.8	178.8	193.8
Application of Funds	4,261.9	4,448.0	4,890.5	5,477.0

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	36.9	32.8	43.2	55.9
Cash EPS	65.3	59.9	72.2	86.6
BV	253.2	278.7	313.3	358.2
DPS	6.0	6.3	8.5	11.0
Cash Per Share (Incl Invst)	68.0	63.1	72.1	103.7
Operating Ratios (%)				
EBITDA Margin	15.9	12.8	13.2	14.8
PAT Margin	7.9	6.1	7.0	8.4
Inventory days	34.9	34.6	35.0	35.0
Debtor days	59.3	47.9	50.0	50.0
Creditor days	72.8	61.2	60.0	60.0
Return Ratios (%)				
RoE	14.6	11.8	13.8	15.6
RoCE	15.3	13.3	15.3	17.7
RoIC	20.4	17.3	19.9	24.8
Valuation Ratios (x)				
P/E	39.3	44.3	33.6	25.9
EV / EBITDA	19.3	20.7	17.3	13.9
EV / Net Sales	3.1	2.7	2.3	2.1
Market Cap / Sales	3.2	2.8	2.4	2.2
Price to Book Value	5.7	5.2	4.6	4.0
Solvency Ratios				
Debt/EBITDA	0.6	0.5	0.3	0.2
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	1.5	1.5	1.6	1.6
Quick Ratio	1.0	1.0	1.0	1.0

Source: Company, ICICI Direct Research

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