

Endurance Technologies (ENDU IN)

Risk reward not so favourable now

INDIA | AUTOMOBILES | Quarterly Update

21 May 2021

Top takeaways from Q4FY21

- ✓ Standalone revenue at Rs 16.0bn was up 42% YoY on a low base; up 4% QoQ on high 2W production and market share gains; Europe revenue was up 3% YoY in EUR terms despite low base due to lower production in Europe (Covid and supply chain issues)
- ✓ Standalone EBITDA margin was 14.8%, down 220bps QoQ due to absence of Maharashtra govt benefit and higher input costs; and Europe EBITDA margin at 17.9% was down 10bps QoQ
- ✓ Consolidated PAT stood at Rs 1.9bn up 75% YoY, down 7% QoQ

Key highlights: Semiconductor shortage is impacting production for PV OEMs in Europe. In India, company commenced production at Vallam plant for die casting during the quarter.

Conference call takeaways

- ✓ In India revenues from all customers except HMSI (up 2%) declined by mid to high single digits YoY for FY21
- ✓ Won Rs 6.8bn of new business in India in FY21 (excluding Bajaj), Rs 2.4bn in Q4. In Europe won EUR 19.3mn of new orders in FY21
- ✓ Additionally, ENDU has more than Rs 11bn of RFQs
- ✓ 720k units cylinder head LPDC plant in Pantnagar to start in Q2 FY22;
- ✓ Increasing disc assembly business capacity from 285k to 570k a month and discs from 375k to 675k a month in Waluj; to start by Aug-21
- ✓ ABS supplies should start by October; Bosch is the main competitor with 85% market share in India
- ✓ Suspension, Braking and Aftermarket segments registered highest growth
- ✓ Company has started trading tyres; was small this year with Rs 25mn revenues, expected to go up to Rs 530mn next year
- ✓ Company is targeting OEMs, OEM funded companies and startups in electric 2W space for its products

Outlook and valuation: We maintain that the company's performance will benefit from 1) market share gains in OEMs (business wins, capacity expansion), 2) increase in penetration of high-technology products, and 3) lightweighting trends in Europe in medium to long term. However, in our opinion, company is going to face multiple challenges in the near term from 1) covid impacting domestic demand especially in the entry segment, 2) higher commodity prices and 3) semiconductor shortage (Europe). Pace of order wins has slowed down particularly in the European business (will limit market share gains) and even margins seem unlikely to reach the recent highs, in the near term. Also, 10-15% of company's business is at risk from electrification. We hold a cautious view on the stock as >40% growth in share price in last 6-8 months has rendered the valuations a little rich and leaves limited room for multiple rerating. We value the stock at Rs 1,460 using average of DCF, P/E and P/B methodologies, implying 26x FY23 P/E (last four years average). Downgrade to Neutral.

Neutral (Downgrade)

CMP RS 1,396/ TARGET RS 1,460 (5%)

COMPANY DATA

O/S SHARES (MN) :	141
MARKET CAP (RSBN) :	188
MARKET CAP (USDBN) :	2.5
52 - WK HI/LO (RS) :	1520 / 601
LIQUIDITY 3M (USDMN) :	2.7
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

	Mar 21	Dec 20	Sep 20
PROMOTERS :	75.0	75.0	75.0
FII / NRI :	12.8	12.8	11.9
NON PRO :	10.6	10.6	11.6
PUBLIC & OTHERS :	1.6	1.6	1.5

KEY FINANCIALS

Rs mn	FY20	FY21E	FY22E
Net Sales	69,177	65,471	80,101
EBIDTA	11,308	10,403	13,189
Net Profit	5,643	5,308	6,743
EPS, Rs	40.1	37.7	47.9
PER, x	22.1	23.5	18.5
EV/EBIDTA, x	10.8	11.5	8.6
PBV, x	4.1	3.5	3.0
ROE, %	18.8	14.9	16.4
Debt/Equity (%)	18.2	11.9	7.9

CHANGE IN ESTIMATES

Rs mn	Revised Est.		% Revision	
	FY21e	FY22e	FY21e	FY22e
Revenue	65,471	80,101	2.0%	-1.7%
EBIDTA	10,403	13,189	0.7%	-6.5%
Core PAT	5,308	6,743	4.7%	-9.2%
EPS (Rs)	37.7	47.9	4.7%	-9.2%

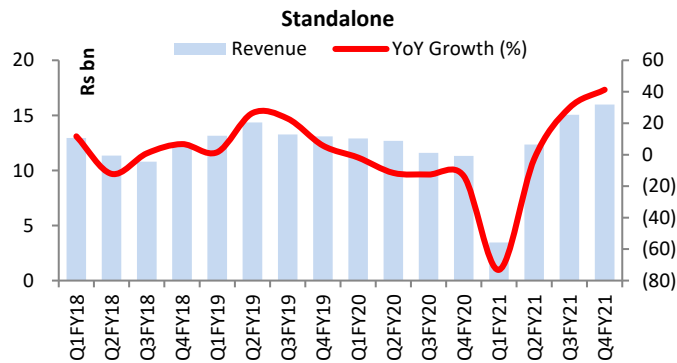
Amar Kant Gaur, Research Analyst

Saksham Kaushal, Research Analyst

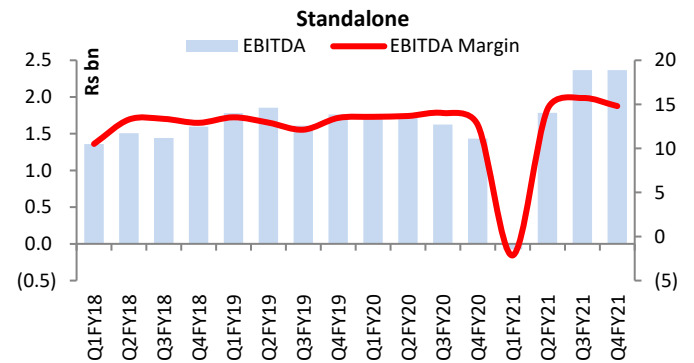
Rs mn	Q4FY21	Q4FY20	% change	Q3FY21	% change	vs est	Comments
Total revenues	21,329	15,968	33.6	20,409	4.5	9.3	High domestic 2W production, market share gains
Raw material	12,222	8,664	41.1	11,031	10.8	11.3	
Staff costs	1,934	1,627	18.9	1,825	6.0	12.3	
Other expenses	3,851	3,298	16.8	4,031	-4.5	0.7	
EBIDTA	3,322	2,379	39.7	3,521	-5.7	11.3	Operating leverage offsetting impact of higher RMC
Interest	19	26	-27.1	42	-56.1	-54.4	
Depreciation	1,118	1,230	-9.1	1,045	7.1	5.5	
Other income	69	174	-60.6	58	17.6	1.8	
PBT	2,254	1,298	73.7	2,493	-9.6	15.5	
Tax	381	229	66.0	480	-20.7	-24.0	
Net Profit	1,873	1,068	75.3	2,013	-6.9	29.1	

Focus Charts

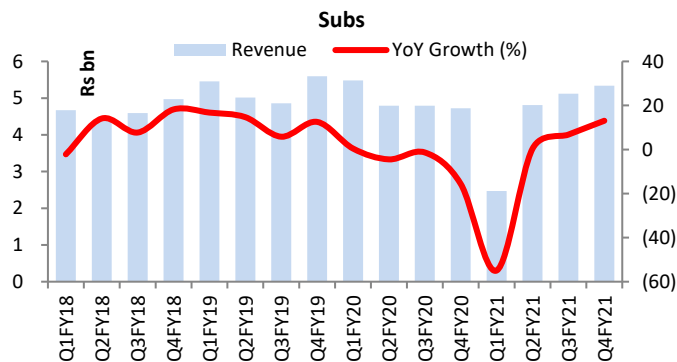
Revenue grew on OEM production and market share gains



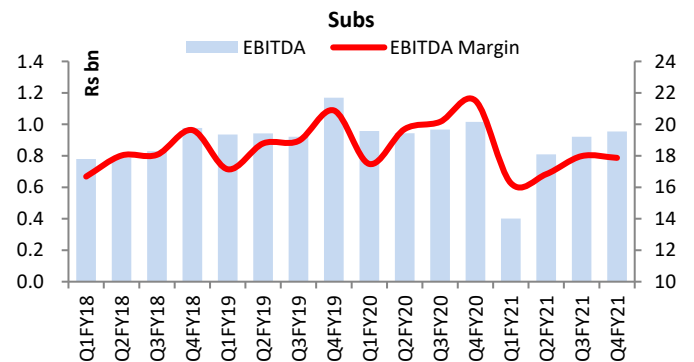
Though profitability was impacted by high raw material costs



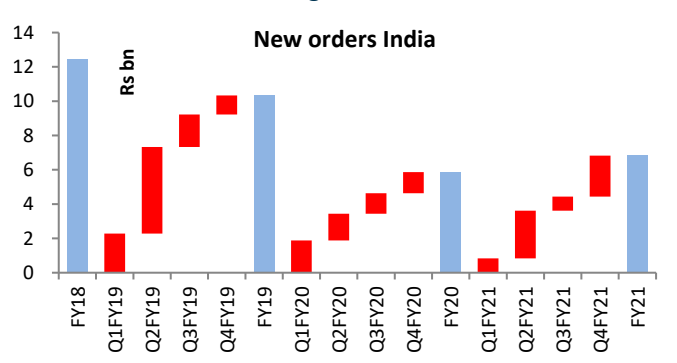
Europe business improved sequentially and YoY...



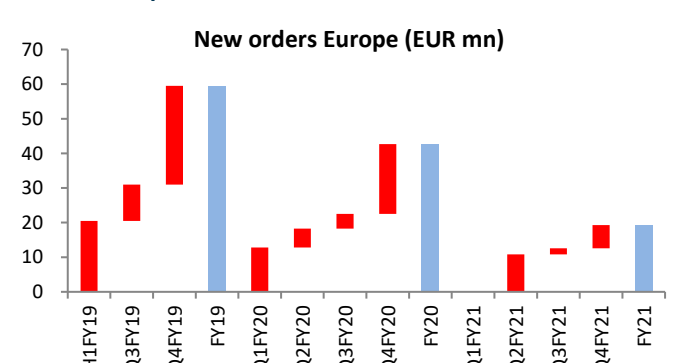
Margins continued to remain under pressure



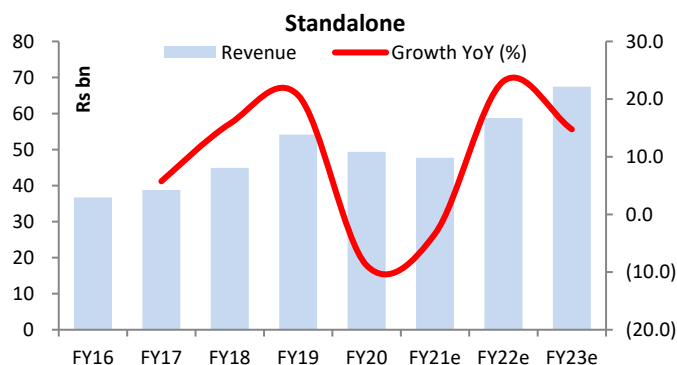
Order wins in India were higher YoY



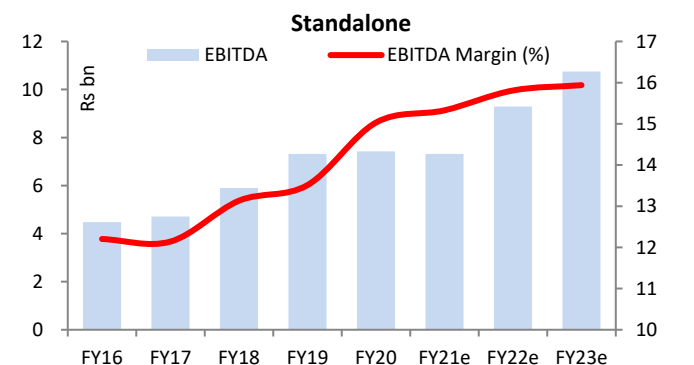
...while European order wins declined vs FY20



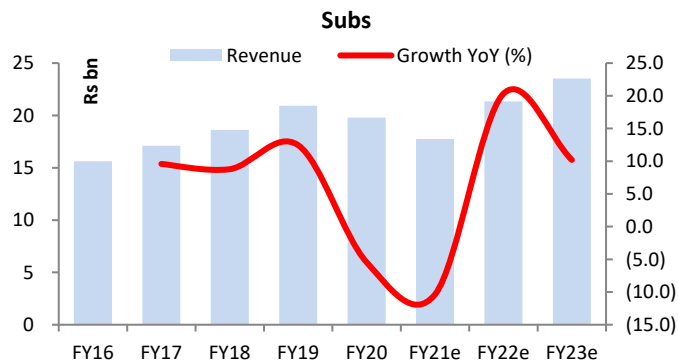
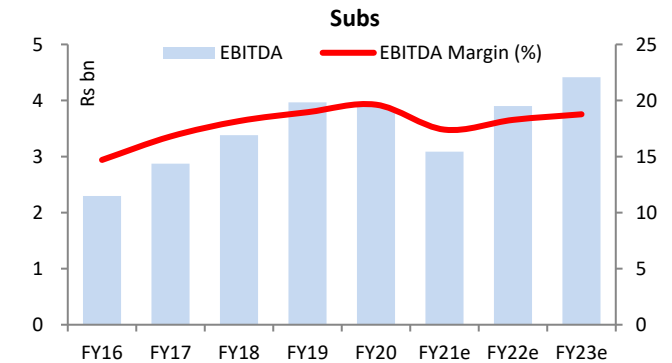
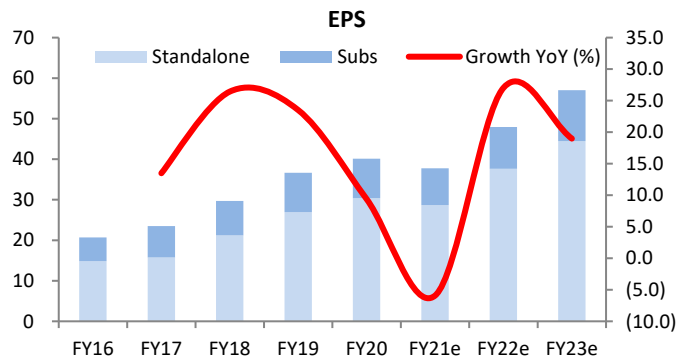
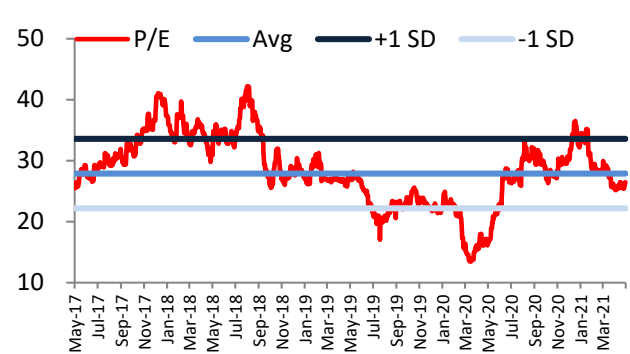
Improving mix should supplement revenue growth...



...but pace of margin improvement should ebb



Source: Company, PhillipCapital India Research

Europe revenues should pick up going forward...

...but margins are unlikely to reach recent highs in near term

Consolidated EPS should pick up strongly

ENDU is trading at +1SD above its long-term trading average

Valuation methodology

Methodology	Value	Assumptions
DCF	1,433	9% revenue growth and 10% FCF growth over FY21-FY31. WACC of 13.5% and terminal growth rate of 4%.
P/E	1,425	27x FY23 EPS for standalone and 18x FY23 EPS for Europe. Translating in 25x FY23 consol EPS, average over last 4 years.
P/B	1,522	4.5x FY23 BPS, average over last 4 years.
Average	1,460	

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY20	FY21e	FY22e	FY23e
Net sales	69,177	65,471	80,101	90,949
Growth, %	-7.9	-5.4	22.3	13.5
Total income	69,177	65,471	80,101	90,949
Raw material expenses	-37,352	-35,706	-44,128	-50,333
Employee expenses	-6,773	-6,761	-7,717	-8,310
Other Operating expenses	-13,744	-12,602	-15,066	-17,145
EBITDA (Core)	11,308	10,403	13,189	15,162
Growth, %	0.2	(8.0)	26.8	15.0
Margin, %	16.3	15.9	16.5	16.7
Depreciation	-4,143	-3,991	-4,242	-4,510
EBIT	7,165	6,411	8,947	10,652
Growth, %	(4.8)	(10.5)	39.6	19.1
Margin, %	10.4	9.8	11.2	11.7
Interest paid	-175	-138	-135	-132
Other non-operating income	476	307	338	366
Exceptional items	0	0	0	0
Pre-tax profit	7,466	6,581	9,150	10,885
Tax provided	-1,823	-1,272	-2,407	-2,863
Profit after tax	5,643	5,308	6,743	8,023
Others (Minorities, Associates)	0	0	0	0
Net Profit	5,643	5,308	6,743	8,023
Growth, %	9.4	(5.9)	27.0	19.0
Net Profit (adjusted)	5,643	5,308	6,743	8,023
Unadj. shares (m)	141	141	141	141
Wtd avg shares (m)	141	141	141	141

Balance Sheet

Y/E Mar, Rs mn	FY20	FY21e	FY22e	FY23e
Cash & bank	6,209	5,133	6,711	5,150
Marketable securities at cost	1,648	4,431	7,931	12,431
Debtors	6,727	10,410	10,557	13,249
Inventory	5,501	6,118	8,000	7,828
Loans & advances	411	1,863	1,863	1,863
Other current assets	978	1,086	1,086	1,086
Total current assets	21,476	29,042	36,148	41,608
Investments	12	12	12	12
Gross fixed assets	41,984	45,775	50,363	55,420
Less: Depreciation	-15,726	-19,717	-23,959	-28,469
Add: Capital WIP	1,065	930	930	930
Net fixed assets	27,323	26,987	27,333	27,881
Non-current assets	1,568	832	832	832
Total assets	50,699	57,475	64,928	70,935
Current liabilities	15,644	17,234	20,160	20,688
Provisions	0	0	0	0
Total current liabilities	15,644	17,234	20,160	20,688
Non-current liabilities	4,994	4,620	3,620	2,620
Total liabilities	20,639	21,854	23,780	23,309
Paid-up capital	0	0	0	0
Reserves & surplus	30,060	35,621	41,148	47,626
Shareholders' equity	30,060	35,621	41,148	47,626
Total equity & liabilities	50,699	57,475	64,928	70,935

Cash Flow

	FY20	FY21e	FY22e	FY23e
Pre-tax profit	7,466	6,581	9,150	10,885
Depreciation	4,143	3,991	4,242	4,510
Chg in working capital	1,765	-3,605	897	-1,991
Total tax paid	-1,915	-1,628	-2,407	-2,863
Cash flow from operating activities	11,458	5,339	11,882	10,541
Capital expenditure	-8,487	-3,214	-4,588	-5,057
Chg in investments	-1,300	-2,783	-3,500	-4,500
Other investing activities	0	0	0	0
Cash flow from investing activities	-9,787	-5,997	-8,088	-9,557
Free cash flow	1,671	-658	3,794	984
Equity raised/(repaid)	659	0	0	0
Debt raised/(repaid)	557	-229	-1,000	-1,000
Dividend (incl. tax)	-1,865	0	-1,217	-1,544
Cash flow from financing activities	-649	-229	-2,217	-2,544
Net chg in cash	1,022	-887	1,577	-1,560

Valuation Ratios

	FY20	FY21e	FY22e	FY23e
Per Share data				
EPS (INR)	40.1	37.7	47.9	57.0
Growth, %	9.4	(5.9)	27.0	19.0
Book NAV/share (INR)	213.7	253.2	292.5	338.6
FDEPS (INR)				
CEPS (INR)	69.6	66.1	78.1	89.1
CFPS (INR)	72.1	37.7	82.1	72.3
DPS (INR)	13.3	0.0	8.6	11.0
Return ratios				
Return on assets (%)	11.8	10.1	11.2	12.0
Return on equity (%)	18.8	14.9	16.4	16.8
Return on capital employed (%)	17.8	14.5	16.2	17.2
Turnover ratios				
Asset turnover (x)	2.9	2.4	2.8	3.1
Sales/Total assets (x)	1.4	1.2	1.3	1.3
Sales/Net FA (x)	2.8	2.4	2.9	3.3
Working capital/Sales (x)	(0.0)	0.0	0.0	0.0
Fixed capital/Sales (x)	0.6	0.7	0.6	0.6
Receivable days	35.5	58.0	48.1	53.2
Inventory days	29.0	34.1	36.5	31.4
Payable days	67.3	84.7	85.7	78.2
Working capital days	(10.7)	12.5	6.1	13.4
Liquidity ratios				
Current ratio (x)	1.4	1.7	1.8	2.0
Quick ratio (x)	1.0	1.3	1.4	1.6
Interest cover (x)	40.9	46.6	66.5	80.6
Total debt/Equity (%)	18.2	11.9	7.9	4.7
Net debt/Equity (%)	(2.4)	(2.5)	(8.4)	(6.1)
Valuation				
PER (x)	22.1	23.5	18.5	15.5
PEG (x) - y-o-y growth	2.3	(4.0)	0.7	0.8
Price/Book (x)	4.1	3.5	3.0	2.6
EV/Net sales (x)	1.8	1.8	1.4	1.2
EV/EBITDA (x)	10.8	11.5	8.6	7.2
EV/EBIT (x)	17.0	18.6	12.6	10.3

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	$\geq +10\%$	Target price is equal to or more than 10% of current market price
NEUTRAL	$-10\% > \text{to} < +10\%$	Target price is less than +10% but more than -10%
SELL	$\leq -10\%$	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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