

Retail Equity Research

Endurance Technologies Ltd

Auto Ancillary

BSE CODE: 540153

NSE CODE: ENDURANCE

Bloomberg CODE: ENDU:IN

SENSEX: 36,473

REDUCE

12M Investment period

Rating as per Mid Cap

CMP Rs 862

TARGET Rs 802

RETURN -7% ↓

(Closing: 22-08-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Flat top-line growth

Endurance Technologies Ltd is one of India's leading automotive component manufacturers with operations in India and Europe. It mainly caters to two- and three-wheeler OEMs in India and supplies aluminium casting products to four-wheeler OEMs in Europe. The company operates 16 plants in India, 9 plants overseas and 4 R&D sites.

- The company recorded a modest 2.6% YoY growth in revenues, as the slowdown in the two-wheeler industry affected its top-line performance, missing Street estimates by 3.6%.
- 71.2% of the top-line was contributed by the Indian business with Bajaj Auto being the top contributor at 37.5%.
- Improvements in gross margin helped in expanding EBITDA margin by 340bps YoY to 18.2% in Q1FY20.
- Given the contraction in the Indian two- and three-wheeler market, combined with the demand slowdown in the European car market, we downgrade our rating to REDUCE on the stock, with a revised target price of Rs. 802, based on roll-forward target multiple of 18x FY21E P/E.

Industry slowdown affects top-line

Endurance registered a flat 2.6% YoY growth to Rs. 1,909cr in Q1FY20. Contraction in the Indian two-wheeler industry (-9.7% YoY) and three-wheeler industry (-10.0% YoY) resulted in top-line missing Street estimates by 3.6%. Adjusted for mega-project incentives of Rs 70cr, the top-line fell -1.2% YoY. Business with Hero MotoCorp grew 35.0% YoY, while Bajaj Auto and Yamaha tie-ups registered 6.0% YoY growth. Aftermarket sales, which includes both domestic and export sales, saw 11% YoY growth. Contraction in the European passenger vehicle market resulted in 3.1% YoY growth in European operations (~28.8% of total sales).

Margins improve

EBITDA margins improved 340bps YoY to 18.2% in Q1FY20 (vs. 14.8% in Q1FY19). PAT margins improved 198bps YoY to 8.7% (vs. 6.7% in Q1FY19). The company has secured orders for two-wheeler forks and three-wheeler brake systems from TVS and expects the supplies to start by Q3FY20. A technical collaboration agreement has been signed with FGM, Italy, for aluminium forgings used in inverted front forks.

Key concall highlights

- Management has decided not to go ahead with its proposal to enter the tyre manufacturing business after considering the feedback from its important stakeholders.
- The company has received new orders worth Rs. 188cr in India. It has also received €1.3cr worth new orders from Maserati and Fiat Chrysler in Europe.
- Management has given a capex guidance of Rs. 300cr for India and €3cr for European operations.
- Management expects the Hyundai & KIA Motors business to reach Rs. 300cr by FY21. Halol plant will start supplying for these businesses from Q3FY20.

Valuation

We expect the company to post muted revenue growth on account of the demand slowdown and inventory pileup in the Indian two- and three-wheeler markets and softness in the European passenger vehicle market. Hence, we roll forward to FY21E and value Endurance Technologies at 18x FY21E adj. EPS. We downgrade our rating to REDUCE on the stock with a revised target price of Rs. 802.

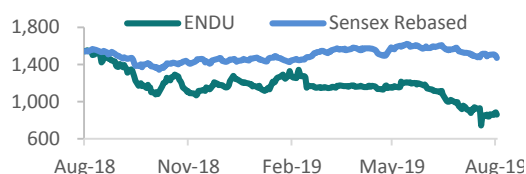
Company Data

Market Cap (cr)	Rs.12,805
Enterprise Value (cr)	Rs.11,902
Outstanding Shares (cr)	14.1
Free Float	18.0%
Dividend Yield	0.6%
52 week high	Rs.1,574
52 week low	Rs.743
6m average volume	7,583
Beta	0.4
Face value	Rs.10

Shareholding %	Q3FY19	Q4FY19	Q1FY20
Promoters	82.5	75.0	75.0
FII's	10.0	15.7	16.4
MFs/Insti	5.1	6.0	5.7
Public	1.3	1.4	1.3
Others	1.1	1.9	1.7
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-25.5%	-31.8%	-44.3%
Absolute Sensex	-6.7%	1.7%	-4.7%
Relative Return*	-18.8%	-33.4%	-39.5%

*over- or underperformance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	7,510	8,262	9,088
Growth (%)	15.9	10.0	10.0
EBITDA	1,156	1,273	1,379
EBITDA Margin (%)	15.4	15.4	15.2
Adj. PAT	522	577	627
Growth (%)	33.6	10.5	8.8
Adj. EPS	37.1	41.0	44.6
Growth (%)	33.6	10.5	8.8
P/E	19.9	21.0	19.3
P/B	4.1	4.0	3.4
EV/EBITDA	9.0	9.3	8.4
ROE (%)	19.3	18.4	17.7
D/E	0.2	0.2	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY20	Q1FY19	YoY Growth %	Q4FY19	QoQ Growth %
Revenue	1,909	1,860	2.6	1,900	0.5
EBITDA	348	276	26.3	330	5.4
EBITDA margins	18.2	14.8	340bps	17.4	80bps
Depreciation	93	82	13.1	109	(14.6)
EBIT	255	194	32.0	222	15.2
Interest	6	6	(2.1)	7	(14.9)
Other Income	-	-	n.m.	(0)	(100.0)
Exceptional Items	-	-	n.m.	-	n.m.
PBT	250	188	33.0	215	16.2
Tax	84	63	33.3	66	26.9
Share of profit from Associate	-	-	n.m.	-	n.m.
Minority Interest	-	-	n.m.	-	n.m.
Reported PAT	166	125	32.9	149	11.4
Adjustments	-	-	n.m.	-	n.m.
Adjusted PAT	166	125	32.9	149	11.4
No. of shares	14.1	14.1	-	14.1	-
EPS (Rs)	11.8	8.9	32.8	10.6	11.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	8,537	-	8,262	9,088	(3.2)	-
EBITDA	1,277	-	1,273	1,379	(0.3)	-
Margins (%)	15.0	-	15.4	15.2	41bps	-
Adj. PAT	634	-	577	627	(9.1)	-
EPS	45.1	-	41.0	44.6	(9.1)	-



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	5,991	6,479	7,510	8,262	9,088
% change	-	8.1	15.9	10.0	10.0
EBITDA	787	951	1,156	1,273	1,379
% change	-	20.8	21.5	10.2	8.3
Depreciation	291	322	376	447	471
EBIT	497	630	780	826	909
Interest	32	24	26	12	37
Other Income	(0)	(27)	(21)	0	0
PBT	465	579	733	838	945
% change	-	24.7	26.5	14.3	12.8
Tax	134	189	238	282	318
Tax Rate (%)	28.9	32.6	32.5	33.7	33.7
Reported PAT	330	391	495	556	627
Adj*	-	-	27	21	-
Adj PAT	330	391	522	577	627
% change	-	18.3	33.6	10.5	8.8
No. of shares (cr)	14.1	14.1	14.1	14.1	14.1
Adj EPS (Rs)	23.5	27.8	37.1	41.0	44.6
% change	-	18.3	33.6	10.5	8.8
DPS (Rs)	2.5	4.0	5.5	6.7	7.7
CEPS (Rs)	44.1	50.6	63.8	72.8	78.0

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	621	712	871	1,003	1,098
Non-cash adj.	(9)	21	(17)	(17)	(18)
Changes in W.C	(75)	9	44	(122)	(41)
C.F. Operation	537	742	898	864	1,039
Capital exp.	(380)	(426)	(678)	(558)	(614)
Change in inv.	17	(11)	(50)	-	-
Other invest.CF	2	1	2	-	-
C.F - Investment	(361)	(436)	(725)	(558)	(614)
Issue of equity	-	-	-	-	-
Issue/repay debt	(86)	40	(76)	(50)	(50)
Dividends paid	(6)	(42)	(68)	(94)	(108)
Other finance.CF	(30)	(21)	(23)	-	-
C.F - Finance	(122)	(24)	(167)	(144)	(158)
Chg. in cash	54	283	6	162	266
Closing cash	220	503	538	699	966

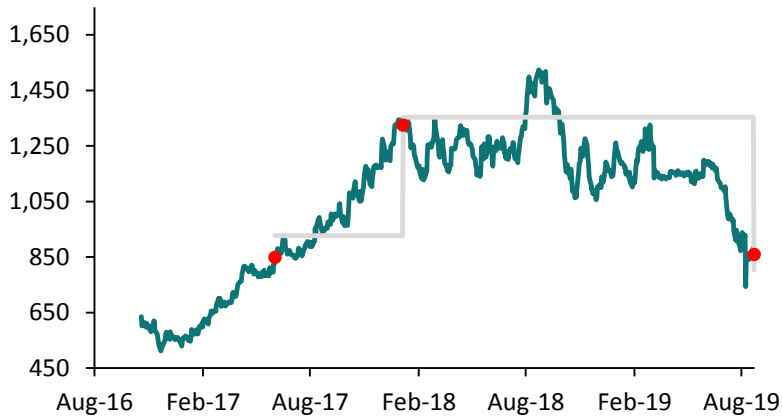
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	220	503	538	699	966
Accounts Receivable	761	969	925	1,074	1,181
Inventories	444	494	540	570	627
Other Cur. Assets	177	185	162	169	175
Investments	1	1	1	1	1
Gross Fixed Assets	5,526	6,369	6,971	7,529	8,143
Net Fixed Assets	1,473	1,671	1,995	2,106	2,249
CWIP	43	54	106	106	106
Intangible Assets	161	185	180	189	199
Def. Tax (Net)	19	12	31	31	31
Other Assets	212	268	307	322	338
Total Assets	3,511	4,341	4,786	5,268	5,873
Current Liabilities	1,228	1,579	1,572	1,636	1,767
Provisions	31	20	66	69	73
Debt Funds	522	568	567	517	467
Other Liabilities	1	2	16	19	22
Equity Capital	141	141	141	141	141
Reserves & Surplus	1,589	2,032	2,424	2,885	3,404
Shareholder's Fund	1,729	2,173	2,565	3,026	3,545
Minority Interest	-	-	-	-	-
Total Liabilities	3,511	4,341	4,786	5,268	5,873
BVPS (Rs)	123	154	182	215	252

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	13.1	14.7	15.4	15.4	15.2
EBIT margin (%)	8.3	9.7	10.4	10.0	10.0
Net profit mgn.(%)	5.5	6.0	6.6	6.7	6.9
ROE (%)	19.1	18.0	19.3	18.4	17.7
ROCE (%)	22.1	23.0	24.9	23.3	22.7
W.C & Liquidity					
Receivables (days)	46.4	54.6	45.0	47.5	47.5
Inventory (days)	44.7	47.6	45.3	45.6	45.6
Payables (days)	87.0	108.7	98.5	98.5	98.5
Current ratio (x)	1.1	1.2	1.2	1.4	1.5
Quick ratio (x)	0.7	0.9	0.8	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	1.1	1.1	1.1	1.1	1.2
Total asset T.O (x)	3.4	1.7	1.6	1.6	1.6
Int. covge. ratio (x)	15.4	26.8	30.3	(71.4)	(24.9)
Adj. debt/equity (x)	0.3	0.3	0.2	0.2	0.1
Valuation					
EV/Sales (x)	3.4	1.6	1.4	1.4	1.3
EV/EBITDA (x)	26.2	11.0	9.0	9.3	8.4
P/E (x)	61.5	26.5	21.0	21.0	19.3
P/BV (x)	11.8	4.8	4.1	4.0	3.4

Recommendation Summary



Dates	Rating	Target
02-Jun-17	ACCUMULATE	927
05-Jan-18	HOLD	1,354
23-Aug-19	REDUCE	802

Investment Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as 'Buy' and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Saji John, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes



the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Saji John, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226

