

# Endurance Technologies Ltd

## A Healthy Upward Ride

**Endurance Technologies is an Aurangabad based Auto Ancillary Company. It has 18 manufacturing plants in India and 8 in Europe. The company's domestic business is diversified, new clients have been added and diversification into newer products continues. Hence, the dependence on the legacy casting business has come down to 44% from more than 50% a few years ago. In Europe, Endurance is a 4W aluminum casting supplier and is moving in complex products. Company derives 2/3<sup>rd</sup> revenue from India and the rest from Europe.**

**Diversified business with improving business mix:** While Bajaj Auto was a big revenue driver for Endurance (>50% by FY2010), in the last few years company has added new clients and has expanded in Europe. This has reduced its client concentration and with HMCL and HMSI increasing their revenue pie with Endurance, the business mix is likely to see a rapid change in the next few years.

**Growing proprietary business to enhance margins:** Endurance is increasing its content with the OEMs, especially in scooters such as CVT and front forks. This is a fairly large opportunity, as scooters have continued to grow rapidly compared to motorcycles. We believe that overall increase in the proprietary sales will increase its EBITDA margins by ~150bps by FY2020E.

**Cash rich business leading to debt free balance sheet by FY2020E:** With the lower capex requirement, Endurance is likely to generate ~1,074cr FCF over the next three years v/s. >~1,268cr between FY2012-17. This is expected to make Endurance an almost debt free company by FY2020E.

**Outlook and valuation:** Shares of Endurance have seen a strong appreciation since its listing last year. At the CMP of ~1,095, the stock is trading at the PE of 26x of its FY2020E EPS. We forecast top-line and bottom-line CAGR of 14.3% and 21.3% respectively over the next three years. We also forecast ~150bps/200bps jump in its EBITDA margins and ROE respectively. With the strong FCF generation, we believe that Endurance will become almost debt free in the next three years. We value Endurance Technologies at 29.0x of its FY2020E EPS of ~42.8 to derive the core business price target of ~1,242 and add ~35, NPV of ABS opportunity to derive the target price of ~1,277, implying 15% upside.

### Key Financials (Consolidated)

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
<b>Net Sales</b>	<b>5,230</b>	<b>5,588</b>	<b>6,665</b>	<b>7,479</b>	<b>8,351</b>
% chg	6.4	6.8	19.3	12.2	11.7
<b>Net Profit</b>	<b>299</b>	<b>328</b>	<b>456</b>	<b>529</b>	<b>603</b>
% chg	18.6	9.5	39.1	15.9	13.9
OPM (%)	13.0	13.5	14.1	14.6	15.0
<b>EPS (₹)</b>	<b>21.3</b>	<b>23.3</b>	<b>32.4</b>	<b>37.6</b>	<b>42.8</b>
P/E (x)	52.2	47.6	34.2	29.5	25.9
P/BV (x)	10.8	9.0	7.4	6.3	5.5
RoE (%)	23.1	20.6	23.8	23.1	22.8
RoCE (%)	19.1	19.2	22.7	23.2	23.6
EV/Sales (x)	3.1	2.9	2.4	2.1	1.9
<b>EV/EBITDA (x)</b>	<b>24.0</b>	<b>21.3</b>	<b>17.0</b>	<b>14.4</b>	<b>12.4</b>

Source: Company, Angel Research; Note: as CMP of Oct 13, 2017

## BUY

CMP	~1,111
Target Price	~1,277

Investment Period	12 Months
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### Stock Info

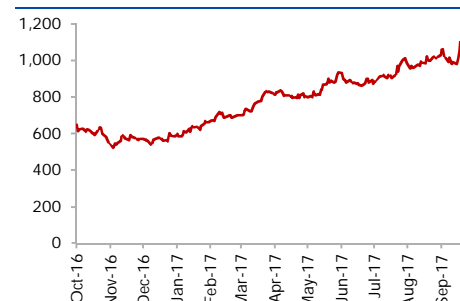
Sector	Auto Ancillary
Market Cap (₹ cr)	15,621
Net Debt (₹ cr)	474
Beta	0.8
52 Week High / Low	1024 / 518
Avg. Daily Volume	38,418
Face Value (₹)	10
BSE Sensex	32,433
Nifty	10,167
Reuters Code	ENDU.NS
Bloomberg Code	ENDU.IN

### Shareholding Pattern (%)

Promoters	82.5
MF / Banks / Indian FIs	4.7
FII / NRIs / OCBs	9.1
Indian Public / Others	3.7

Abs. (%)	3m	6m	e Listing
Sensex	1.2	10.1	15.9
Endurance Tech.	23.6	33.7	71.5

### Price Chart



Source: Company, Angel Research

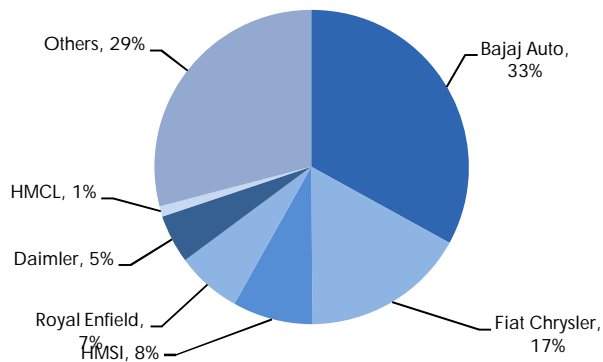
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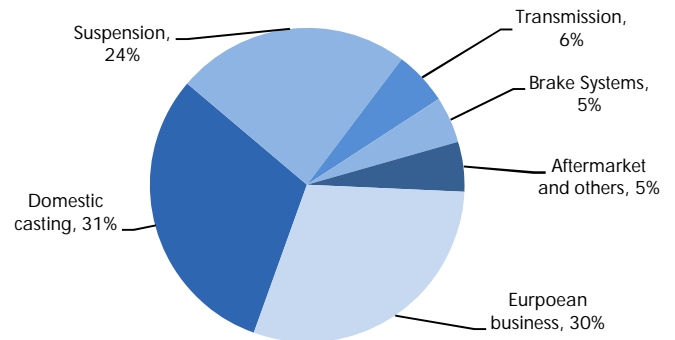
## Endurance at a glance

Exhibit 1: Client mix



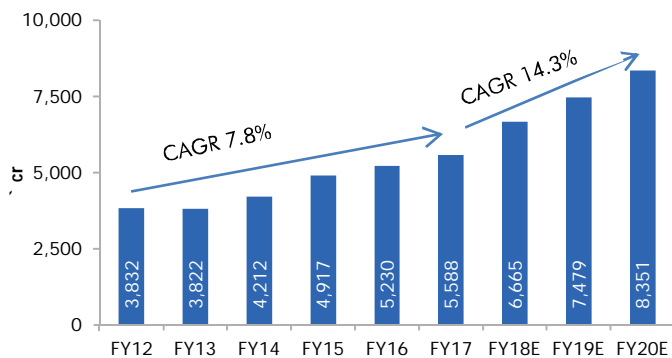
Source: Company, Angel Research, \*Consolidated

Exhibit 2: Diversified Business mix



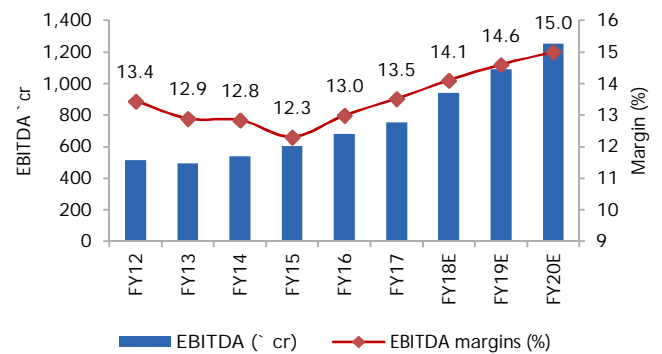
Source: Company, Angel Research, \*Consolidated

Exhibit 3: 14% revenue CAGR over next three years



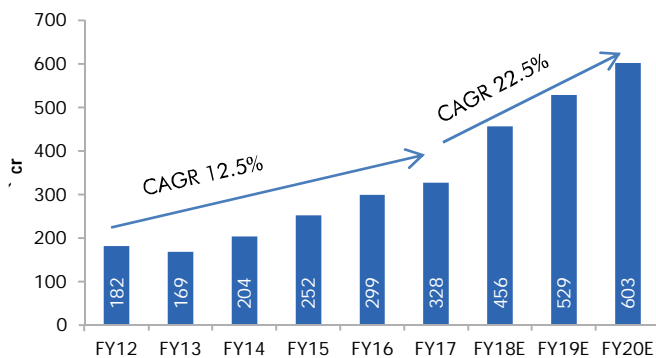
Source: Company, Angel Research, \*Consolidated

Exhibit 4: EBITDA margins continue to improve



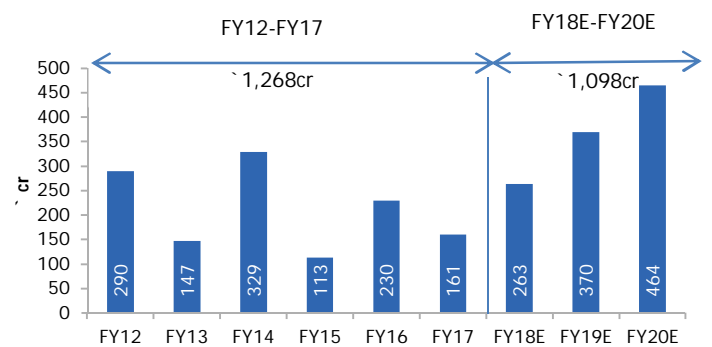
Source: Company, Angel Research, \*Consolidated

Exhibit 5: 22.5% PAT CAGR over next three years



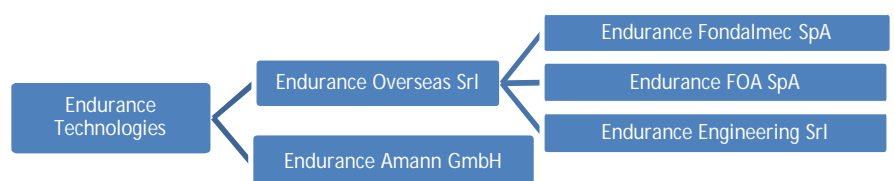
Source: Company, Angel Research, \*Consolidated

Exhibit 6: Strong free cash flow generation



Source: Company, Angel Research, \*Consolidated

Exhibit 7: Endurance group structure



Source: Company, Angel Research

## About company

Endurance Technologies is an Aurangabad based multi-product Auto Ancillary Company having total 26 strategically located manufacturing plants of which 18 are in India and 8 plants are in Europe. Company derives 70% revenue from India and the rest 30% from Europe. Company is also developing an automotive proving ground (test track) on 26 acre land in Aurangabad. This is expected to be operational in the current fiscal and will help Endurance to develop and launch new products.

Its domestic business is comprised of Aluminum castings, suspension, transmission, braking and aftermarket. Aluminum casting is the largest segment which contributes 44% of domestic revenues while rest is contributed by suspension (34%), transmission (8%), Braking (7%) and aftermarket and others (7). The domestic business is mostly a 2W business. In the domestic market, over past several years, company has diversified in different products (other than castings), which has seen dependence on the legacy casting business coming down to 44% from more than 50% a few years ago.

**Exhibit 8: Endurance Technologies - business segments products and customers**

Business segment	Sub segment	Products	Customers
Aluminum Casting and Machining	High pressure aluminum castings	Crank cases cylinder blocks and covers	Bajaj, Honda, Hero, Tata Motors and Royal Enfield
	Low pressure AL castings	Several	Crown handles (Yamaha) Cylinder heads (Bajaj Auto and Royal Enfield)
	Aluminum alloy wheels		Yamaha and Bajaj Auto
Aluminum Casting and Machining (Europe)	High-pressure die-casting products (Euro VI standards)	Components for engines, transmission, vehicle body	FCA Italy SpA, Daimler and other European 4W OEMs
	Transmission system components	Pistons, gearbox housing, transmissions housing and torque convertor housing	Fiat, Lancia and Jeep
	Steel, cast iron and engineering plastic parts	Suspension parts such as steel wheel hubs, head axles	Several
Suspension	Shock absorbers	Twin/ Mono tube Hydraulic, Oil and gas-filled shock absorbers, Mono shock absorbers, Spring-in-spring and spring-on-spring hydraulic shock absorbers	Bajaj, Honda, Royal Enfield, Hero, Yamaha, Harley-Davidson.
	Front forks	Cartridge variety and Inverted forks	Bajaj CT100, Bajaj Pulsar, Avenger and Royal Enfield
Transmission		Clutch assemblies	Bajaj and Piaggio Ape (3W) and Bajaj Quadracycles.
		CVTs	Hero MotoCorp, Mahindra
		Friction plates	2W – Bajaj Auto, Royal Enfield 3W, Bajaj Auto, Piaggio Bajaj Quadracycles
Brake Systems		Hydraulic disc brake assemblies	Bajaj Auto, Royal Enfield
		Rotary brake discs assemblies	Bajaj Auto, Royal Enfield Yamaha
		Hydraulic drum brake assemblies	Bajaj Auto (3W)
		Tandem master cylinder assemblies	Bajaj Auto (3W)

Source: Company, Angel Research

Company primarily was a supplier to Bajaj Auto, however it has successfully added new customers like Hero MotoCorp, Honda Motorcycles and Scooters, Royal Enfield, Yamaha, etc. This has led to the reduction in the dependence on Bajaj Auto from 58% in FY2010 to 33% in FY2017.

In Europe, Endurance is a 4W aluminum casting supplier. The European 4W casting business contributes ~30% to the consolidated revenues of the company. It has customers like FCA Italy SpA, Daimler, Jeep, etc.

#### Exhibit 9: European subsidiaries

Subsidiary	Nature of operations	Facility
Endurance Amann GmbH	Manufacturing of high pressure die casting and machined components	Massenbachhausen, Germany
Endurance Overseas Srl	SPV incorporated for making strategic overseas investments	Turin, Italy
Endurance Fondalmec SpA	Production of machining components such as engine, gearbox, transmission groups, machining and assembling of components of aluminum alloys, cast iron and steel	Turin, Italy
Endurance Foa SpA	Manufacturing of high pressure die casting and machined components	Turin, Italy
Endurance Engineering Srl	Production of engineering plastic components for automotive applications	Turin, Italy

Source: Company, Angel Research.

#### Key Management Personnel

##### ■ Mr. Anurang Jain – Founder and Managing Director

Mr. Jain promoted Endurance in 1985. He is responsible for the overall operations of the company. He holds an MBA from the University of Pittsburgh.

##### ■ Mr. Naresh Chandra – Chairman and Non-Executive Director

Mr Chandra has been with Endurance since inception and became the Chairman in 1999. He has over 33 years of experience in the automobile industry.

##### ■ Mr. Ramesh Gehaney – Executive Director and COO

Mr. Gehaney has been with the company since 2004 and he is responsible for the company's manufacturing operations. He holds Diploma in Mechanical Engineering from University of Delhi. Before becoming COO, he had worked across multiple departments in Endurance Technologies.

##### ■ Mr. Satrajit Ray – Chief Financial Officer

Mr. Ray has been with Endurance since 2010. He is an associate member of ICAI and has an experience of over 32 years. He has previously worked with the Indian Aluminum Company Ltd (Indal), Hindalco Industries Ltd and MIRC Electronics Ltd.

##### ■ Massimo Venuti – CEO- Endurance Overseas

Mr. Venuti has been the CEO of Endurance Overseas SRL since June 2008 and he looks after Endurance's European operations. He has over 22 years of experience in the automotive industry and holds a Degree in Philosophy and Letters from the University of Urbino.

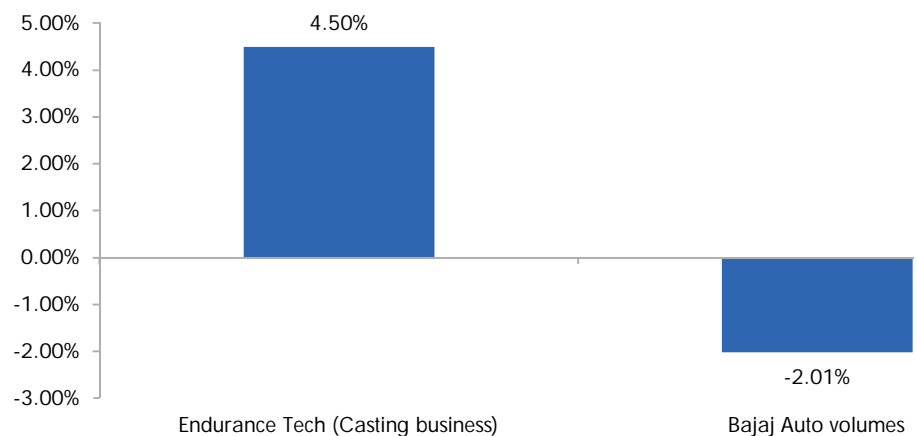
## Investment Rationale

Growth to rebound in casting business due to client diversification: Endurance started its business as a die casting supplier to Bajaj Auto. Over the past several years, casting segment has become its largest segment contributing 44% of domestic revenues in FY2017. In FY2010, Bajaj Auto and Yamaha were its two major clients in the casting business and Bajaj Auto contributed ~70% of its domestic sales (casting + other segments). With Bajaj Auto as its main client, growth of the casting business was largely pegged with the growth of the Bajaj Auto.

With the rapid growth of scooters, the motorcycle sales in India have been adversely impacted in the past several years. As a result of which Bajaj Auto has suffered since it has no exposure to scooters. In FY2016, Bajaj Auto reported ~2% yoy growth in the 2W volumes as exports started to decline. In FY2017, while domestic motorcycle volumes grew by 5.4% yoy, exports declined by 16.5% yoy to pull down the total volumes.

In the last seven years, company has added other clients such as Royal Enfield, Hero MotoCorp (HMCL), Honda Motorcycle & Scooter India (HMSI), etc. This has reduced the company's dependence of casting business on Bajaj Auto. The diversification of clients in the casting business has been positive for Endurance despite the sluggish growth in Bajaj Auto's 2W volumes. Moreover, Endurance grew its casting business by 4.5% between FY2014-17.

**Exhibit 10: Casting business grew 4.5% despite Bajaj Auto's sluggish volume growth (FY2014-17)**



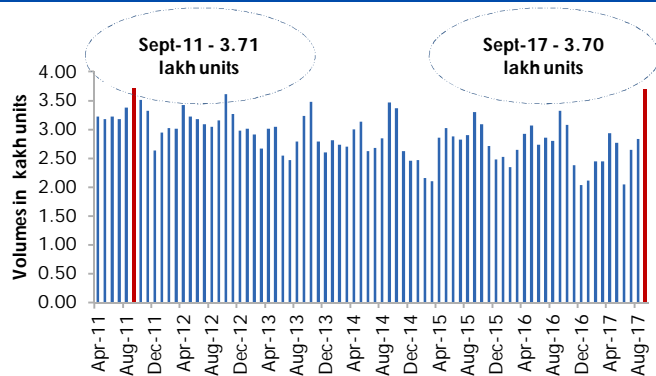
Source: Company, Angel Research

Bajaj Auto numbers expected to improve: With the rapid growth in scooters segment (Scooterization), the motorcycle sales in India were impacted in the past several years. This impacted Bajaj Auto, which has no exposure in scooters segment. However, we believe that Bajaj Auto is now in the recovery mode. In FY2016, Bajaj Auto reported ~2% yoy growth in the 2W volumes, as exports started to decline. In FY2017, while domestic motorcycle volumes grew by 5.4% yoy, exports declined by 16.5% yoy to pull down the total volumes.

FY2018, however, seems to end differently for Bajaj Auto. While 1HFY2018 exports have witnessed 6% yoy growth, domestic numbers have been soft owing to

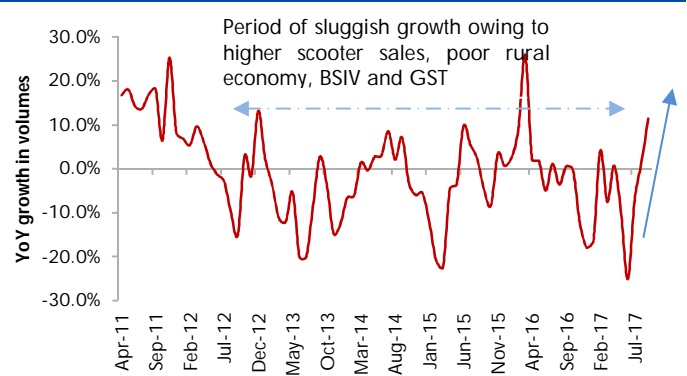
(1) BSIV (Bharat Stage Emission Standards) implementation (where Bajaj was first to move to BSIV, but discounts by competitors hurt Bajaj Auto's volumes), and (2) GST implementation, which has hurt all vehicle manufacturers. In September 2017, company reported 7% yoy growth in the domestic volumes while exports grew by 20.5% yoy. With the satisfactory monsoon and recovery in the rural economy, we believe that Bajaj Auto is likely to post better domestic volumes whereas the exports are expected to grow, as it has entered in the new countries, which have reduced the dependence on high volume countries like Sri Lanka, Nigeria, etc.

Exhibit 11: Bajaj Auto - 2<sup>nd</sup> highest monthly volumes in Sept-17



Source: Bajaj Auto, Angel Research

Exhibit 12: Bajaj Auto's growth was impacted in the previous years but it is now in recovery mode



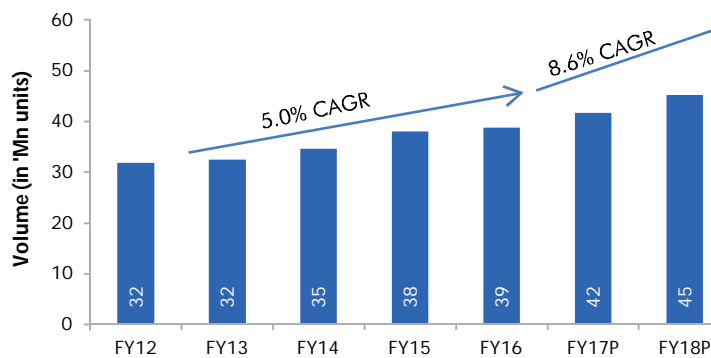
Source: Bajaj Auto, Angel Research

This rebound in Bajaj Auto's volumes is expected to benefit the casting business of Endurance, which should grow by 6-7% going ahead.

**Proprietary products, diversifying in new products and customers:** Endurance's proprietary products i.e. suspension, transmission and braking products, contribute about 1/3<sup>rd</sup> of the total revenue. Endurance introduced suspension products in 1996, transmission products in 1998 and brake systems in 2004. This is the business in which the company has greater scope to increase value added products, expand the business, add more clients to diversify further. Unlike casting business, company has already achieved a decent diversification in the suspension and transmission business and there is still a scope to add more clients in the braking business.

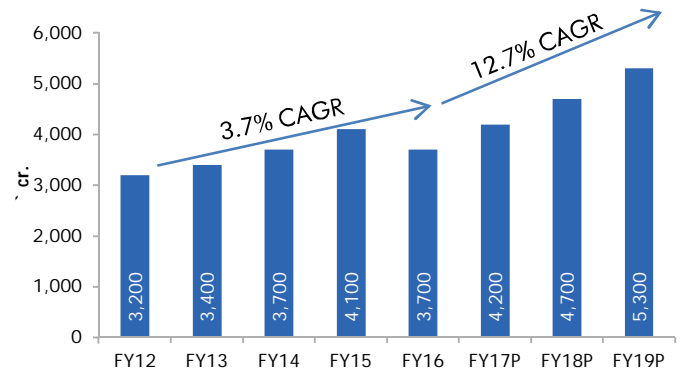
- **Suspension:** The suspension market, estimated to be ₹4,200cr in FY2017, which is expected to grow at a CAGR of 12.7% to reach ₹5,300cr in FY2019E. The 2W and 3W suspension includes front fork and shock absorber units. While the suspension volumes are expected to grow at 8.6% CAGR by FY2019, market is expected grow at 12.7% CAGR indicating that the suspension products are expected to witness better realizations compared to the earlier years. The replacement of shock absorbers by front forks in the scooters is the main driver for the growth of the 2W transmission. Company expects that by 2019-20, all scooters in India will have suspension front forks instead of lower price shock absorbers.

Exhibit 13: 8.6% CAGR in suspension volumes



Source: DRHP, Angel Research

Exhibit 14: ...and 12.7% CAGR in market size



Source: DRHP, Angel Research

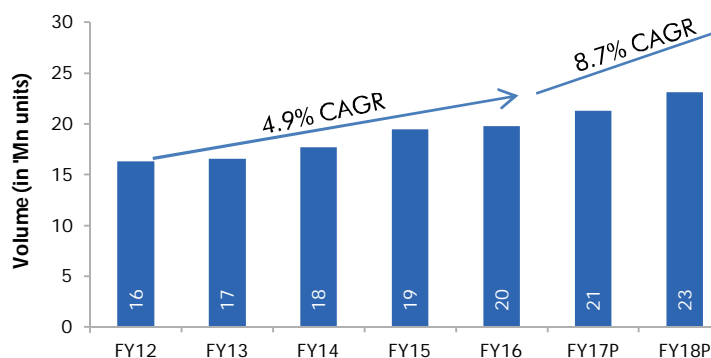
Exhibit 15: Endurance's suspension family



Source: Company, Angel Research

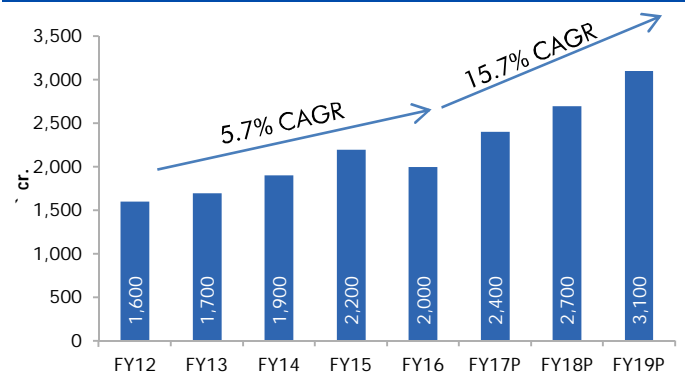
■ **Transmission:** The transmission market has two categories i.e. Clutch assemblies and Continues Variable Transmission (CVT). Clutch assemblies are used in vehicles with gears i.e. motorcycles while CVTs are used in non-gear vehicles, i.e. scooters. The rapid scooterization in the country has been driving the CVT volumes in India and the same is expected to benefit Endurance.

Exhibit 16: 8.7% CAGR in transmission volumes



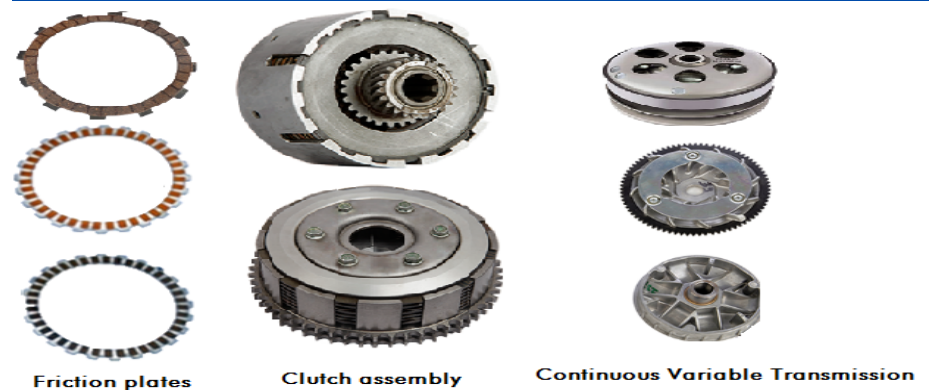
Source: Company, Angel Research

Exhibit 17: ...and 15.7% CAGR in market size



Source: Company, Angel Research

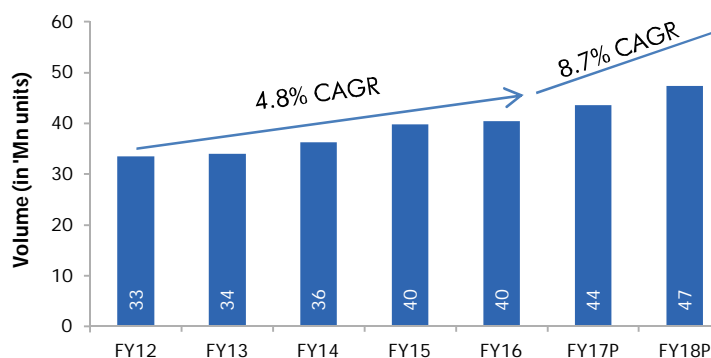
Exhibit 18: Endurance's transmission family



Source: Company, Angel Research

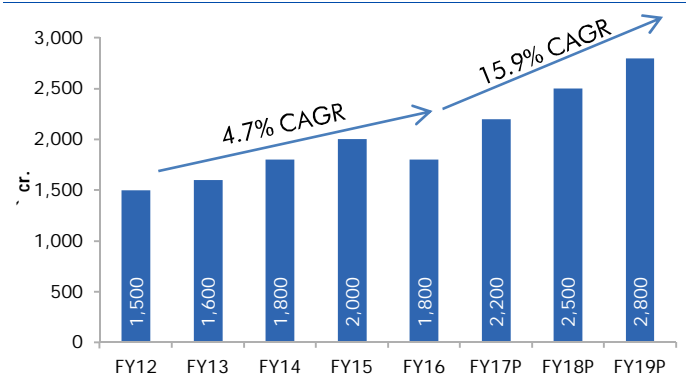
- **Braking:** The braking market is also an equally attractive market. The market for 2W and 3W brakes is expected to grow from ₹2,200cr in FY2017 to ₹2,800cr in FY2019E. In volume terms, braking volumes are expected to grow at a CAGR of 8.7% (FY2016-19E) whereas during the same period in value terms market is expected to grow at ~16%.

Exhibit 19: 8.7% CAGR in braking volumes



Source: Company, Angel Research

Exhibit 20: ...and 15.9% CAGR in market size



Source: Company, Angel Research

Exhibit 21: Endurance's braking family



Source: Company, Angel Research

**Exhibit 22: Proprietary business, diversified products and OEM clients**

Segment	Products	OEM clients
<b>Suspension</b>	Twin/ Mono tube Hydraulic, Oil and gas-filled shock absorbers, Mono shock absorbers, Spring-in-spring and spring-on-spring hydraulic shock absorbers, Cartridge variety and Inverted forks	Bajaj, Honda, Royal Enfield, Hero, Yamaha, Harley-Davidson.
<b>Transmission</b>	Clutch assemblies	Bajaj and Piaggio Ape (3W) and Bajaj Quadricycles.
	CVTs, Friction plates	Hero MotoCorp, Bajaj Auto, Royal Enfield, Bajaj Auto, Mahindra, Piaggio, Bajaj Quadricycles
<b>Brake Systems</b>	Hydraulic disc brake assemblies	Bajaj Auto, Royal Enfield
	Rotary brake discs assemblies	Bajaj Auto, Royal Enfield Yamaha
	Hydraulic drum brake assemblies	Bajaj Auto (3W)
	Tandem master cylinder assemblies	Bajaj Auto (3W)

Source: Company, Angel Research

Strategy for proprietary products: For the proprietary products, Endurance's journey can be divided in two parts (1) add more OEMs and (2) increase the content per vehicle. We believe that the first part of this journey has been executed before the IPO. During this phase, company added Hero, Honda, Mahindra and Royal Enfield in the last ten years. TVS Motor Company is the only missing large two wheeler company from its client list. From our discussions, we understand that company intends to add TVS as its client in future. Endurance already has Bajaj and Piaggio in the three wheeler category, these two companies together hold almost 80% market share. Company is also supplying inverted front forks to KTM and has plans to increase the export of inverted front forks to KTM in big ways. This is also expected to help the proprietary business pie in the total business.

We believe that the company is in the second phase of the journey that will see increasing revenue share of its clients. Also with proprietary products being of the high value adds than the low margin casting business, Endurance has more to gain in its domestic business from this strategy.

**Incremental opportunities for Endurance in proprietary business:**

- **Opportunity with Hero MotoCorp (HMCL)** – Endurance has been a die casting and suspension part supplier to HMCL's Manesar and Rajasthan plants. It has also become a suspension part supplier to HMCL's new Halol plant in Gujarat. Currently, these supplies are made from Aurangabad plant and Endurance is in process to set up a plant at Halol. Hero's Karnataka plant has annual capacity of 2.4mn while Halol plant (commissioned in March 2017) has a peak capacity of 1.8mn vehicles. Hero is targeting to produce 2,700 vehicles per day in FY2018 and take it to 6,200 per day in FY2019. Endurance is also starting with clutches and CVT parts from HMCL at Halol plant in the second half of this fiscal. HMCL is currently contributing <2% to the company's revenue and going ahead, this is expected to see a sharp increase.
- **Opportunity with Honda** – While Endurance is already a casting and suspension part supplier to Honda, an incremental opportunity is in the Honda's scooter only plant in Vithalapur, Gujarat. This plant has a capacity of 1.2mn vehicles. Company will be supplying front forks and shock absorbers to this scooter plant. While company is supplying casting and suspension products to Honda's dream series bikes, braking is expected to follow going

ahead. Company expects braking for Honda to start in FY2019. Honda contributes ~13% to company's revenue and the same has a scope to increase further as Endurance meets 100% requirement for suspension at Honda's Karnataka plant and sizable portion (~65%) of shock absorbers for scooters. In Gujarat, company has 80% share in suspension and 60-65% in casting. Barring Activa (125 CC) and Aviator (110 CC), Honda's other scooters are yet to move to the telescopic suspension, which makes Honda a big opportunity for Endurance. Endurance's component sales to Honda have already been seeing more than 30% yoy growth and once Gujarat plant reaches its full capacity i.e. in FY2019, the growth will be even higher.

#### Exhibit 23: Dio and Activa (100cc category) is yet to move to telescopic suspension

Model/Engine	Front suspension type
Activa - 110 CC	Spring loaded hydraulic type
Activa I - 110 CC	Spring loaded hydraulic type
Dio - 110 CC	Tube type
<b>Aviator - 110 CC</b>	<b>Telescopic</b>
<b>Activa - 125 CC</b>	<b>Telescopic</b>

Source: Company, Angel Research

- **Opportunity with Royal Enfield** – Endurance supplies castings, suspension and transmission to Royal Enfield and it has been growing at 30% rate and contributes ~10% in revenue. Company in the last fiscal started to supply disc brake assemblies to RE's 350CC bikes and expects to increase the share of this business to Royal Enfield. For Royal Enfield, Endurance is moving its production from Pune to Chennai, as the orders from Royal Enfield are growing fast. This is expected to help in saving logistics and packaging costs, which will help it in the margins as well as maintaining a relationship through which it can get more orders.
- **Opportunity in ABS/CBS** - Braking segment will also see an opportunity in terms of mandatory Antilock Braking System for two wheelers above 125CC vehicles from 2018 onwards and ABS or Combined Braking System (CBS) in two wheelers below 125CC capacity. Currently, Bosch and Continental are the only two players in ABS/CBS and Endurance is in advanced stage to manufacture its version of ABS/CBS and has a technology tie up with a US company BWI North America Inc. Company has already received approval for CBS from Bajaj Auto for two vehicles in the June quarter. Company is also expecting to add more clients in ABS/CBS and we too remain positive, as there are only two established players. India's vehicle mix includes ~40% of 125CC, hence we believe that total opportunity at ~3,000/vehicle is expected to be ~2200-2500cr in FY2019E. With only 3-4 manufacturers of ABS, we believe Endurance can gain a market share 8-10% in the first year in its existing clients leading to a top line addition of ~200-250cr with a good margin.

**Increasing the contents in scooters is the thrust** – For long, Endurance's major domestic business was associated with motorcycles, however with its association with Hero and Honda, the same is expected to change. Especially with Honda's strong market share and high growth in the scooters segment, Endurance is

expected to benefit strongly. Honda already contributes ~8% of Endurance's consolidated revenue and with increasing pace of scooterization in India, Endurance looks to emerge a strong beneficiary due to (1) association with Honda's all scooter Gujarat plant, and (2) replacement of shock absorbers by front forks. Endurance's new products such as front forks, CVT are especially targeting the scooters and with its strong reputé and track record we believe that Endurance is well placed to seize this opportunity.

**Aftermarkets – small business with high margin:** Endurance's aftermarket business was established in 2001 in order to build the 'Endurance' brand. Company only distributes its proprietary products through this business. Aftermarket business is currently at 5% of domestic sales but the company intends to increase this to 10% of domestic business in the next 3 years. Company has expanded its aftermarket business to Argentina, Dominican Republic, and El Salvador in FY2017 and also saw increased sales in countries like Honduras and Peru. It also intends to increase the number of countries going ahead, which is expected to increase the revenue contribution from aftermarket business. This, we believe is a positive move, as aftermarket is a B2C business, which has significant high margins than other businesses.

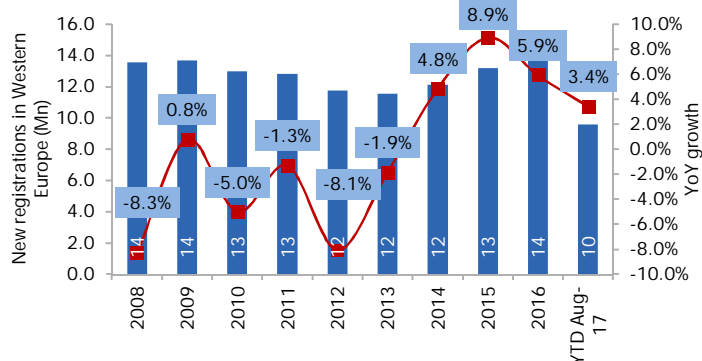
The aftermarket business has grown at ~15% growth, lower than the management's expectation. Domestic aftermarket segment is fragmented and there is scope for the organized players like Endurance to grow. We believe that this business can grow faster with expansion in new countries and emergence of ecommerce sales channel in the aftermarket segment.

**European business- concentrated but focused:** Endurance's European business is fully acquired business. It has three manufacturing plants in Massenbachhausen, Germany and five in Torino, Italy. The company has recently (in FY2017) commissioned a new machining plant in Massenbachhausen, Germany. In Europe Endurance caters to four-wheeler OEMs, focusing on engine and transmission components. Its products include raw and machined aluminum castings (high-pressure and gravity die-casting products) and steel, cast iron and engineering plastic parts. Its main customers in Europe are Fiat Chrysler Group (FCA), Daimler, General Motors, Volkswagen, BMW, etc. Customer concentration in European business is high with ~85% of European sales coming from the top 5 customers. Company has indicated that its major customers in Europe (FCA and VW) are growing faster than the market ~15% yoy. It has also indicated that it will continue to focus on the existing customers rather than adding any new customers.

**European auto industry in strong recovery mode:** The European auto market is one of the largest in the world and was impacted for long after the financial crisis of 2007-08 and following the debt crisis in Europe. The market is now in recovery mode with strong demand and positive sentiment. After the consistent slump in the new car registrations post the financial crisis, European car registrations have been growing for the last three years and the trend has continued in the year 2017 as well.

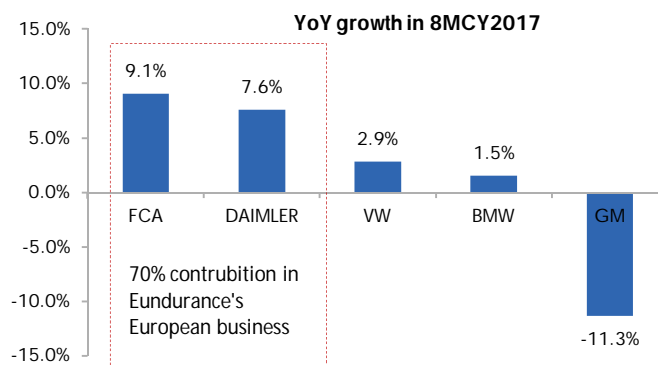
Endurance's major clients i.e. FCA and Daimler have also shown a yoy growth of 9.1% and 7.6% respectively in the first 8 months of CY2017. Both of these companies contribute about 3/4<sup>th</sup> of Endurance's European business. Endurance has indicated that it has order book visibility till 2025E for engines components and up to 2028E for transmission components. This gives us comfort in the revenue visibility of the company for long period going ahead.

Exhibit 24: Recovery in the European auto sector



Source: Automobile manufacturers Association, Angel Research

Exhibit 25: Volume growth in Endurance's clients

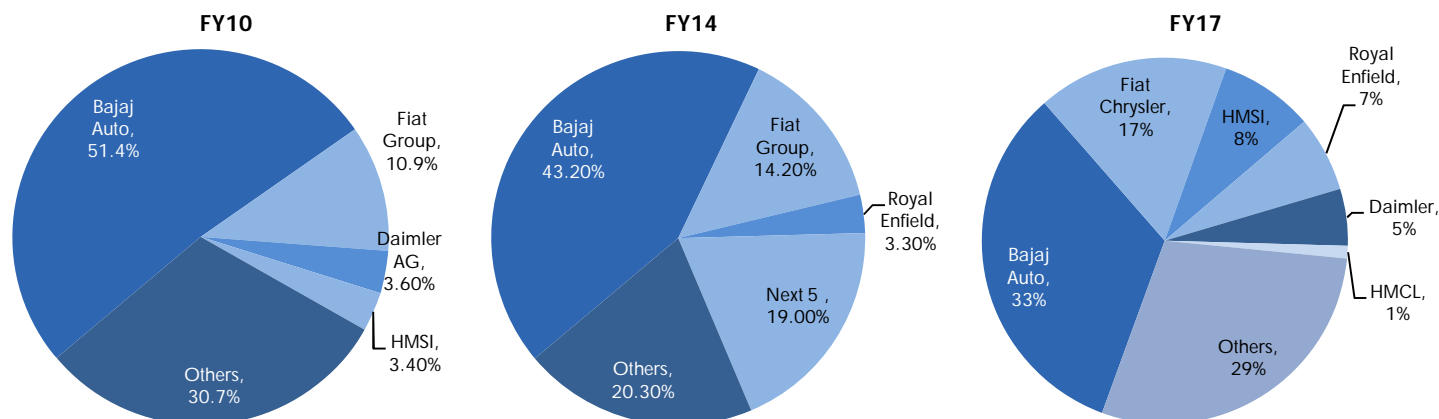


Source: European Automobile manufacturers Association, Angel Research

**European business likely to see higher margins:** Endurance intends to reduce the simple parts and increase the value-added complex products (such as structural parts and large and complex engine and transmission castings) with its European clients. The European business is already a high EBITDA margin business (13-14%) and increasing value added content will be margin accretive in our opinion. Company is also intending to continue with its inorganic route of growth in Europe and has indicated that it may acquire a small and profitable business. It has set a ticket size of €20-40mn and is looking for a small company (with 10% EBITDA margin) with space availability for Greenfield expansion. While 10% EBITDA margins are less than what Endurance enjoys in Europe currently, we believe that management has shown their capability to run overseas operations successfully.

**Changing client mix, a big positive:** Bajaj Auto has been the major revenue driver of Endurance since inception, however, that has been changing over the last few years. Bajaj Auto contributed 51.5% in FY2010, which has come down to 33% in FY2017 and we believe that this will further reduce with the higher contribution from other clients, HMCL is contributing less than 2% in Endurance's revenue and, as the business with HMCL would increase, the pie will grow further. Company expects HMCL's contribution through Halol plant to be annually `275cr in FY2019E (3.5-4% as per our estimates). Similarly, with the ramp up at Honda's new scooters plant and overall increasing content especially in the scooters, Honda's share in Endurance is expected to grow.

Exhibit 26: Bajaj Auto's revenue continues to shrink significantly reducing the client concentration risk



Source: Company, Angel Research

Company in the last two years has added a new small client (Getrag) which is the largest independent maker of transmission systems for cars and vans. Company sells

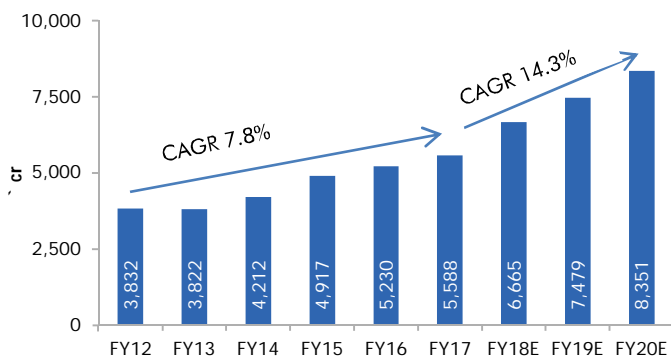
aluminum castings to Getrag, which fetched ₹78cr for Endurance in FY2017. Company expects Getrag revenues to double to ₹175cr by FY2019E.

Overall, the diversifying client base removes the client concentration risk, which would further improve the company's business fundamentals.

## Financials

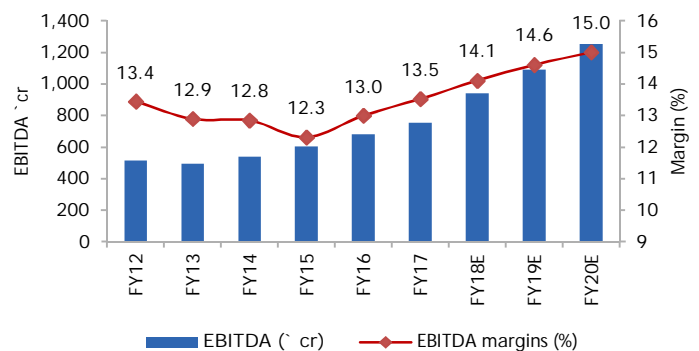
**14% revenue CAGR, ~150bps margin expansion:** With Bajaj Auto expected to improve its performance, we believe, its legacy casting business would see a faster growth. Casting business, which grew by ~4.5% over past few years due to decline in Bajaj Auto's market share, can now see growth of ~6%. We also expect the Suspension, Transmission and Braking business to clock in double digit revenue growth mainly due to the increasing content, especially in the scooters and higher revenue contribution from HMCL, HMSI and Royal Enfield. We also believe that Aftermarket + Exports (including Getrag) have a potential to grow by more than 20% going ahead. Overall, we anticipate Endurance to register a top-line CAGR of 14.3% over FY2017-20E.

Exhibit 27: 14% Revenue CAGR over FY2017-20E



Source: Company, Angel Research

Exhibit 28: 150bps margin improvement (FY2017-20E)



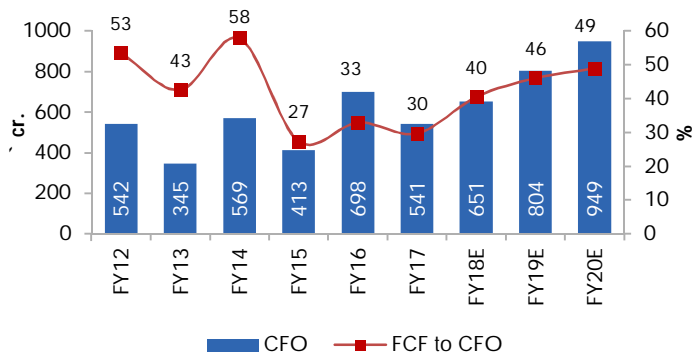
Source: Company, Angel Research

With the increasing contribution of the proprietary products, Endurance has seen improving EBITDA margins between FY2015-17, and we believe that this pace of improvement would accelerate with (1) higher contribution of the proprietary products, (2) growth in Bajaj Auto's business, which will increase utilization of the casting business assets, (3) sustained growth momentum in the European business and strong order book over next 5-7 years, and (4) growing share of the aftermarket business including Getrag transmission revenues.

**Solid FCF generation over the next three years:** Owing to the lower capex requirement and efficient working capital management, Endurance would witness a period of strong free cash flow generation over FY2018E-20E. The company has efficiently managed the working capital (FY2017 - inventory days 29 days, debtor days 50 days and creditor days 56 days, total working capital cycle of 23 days).

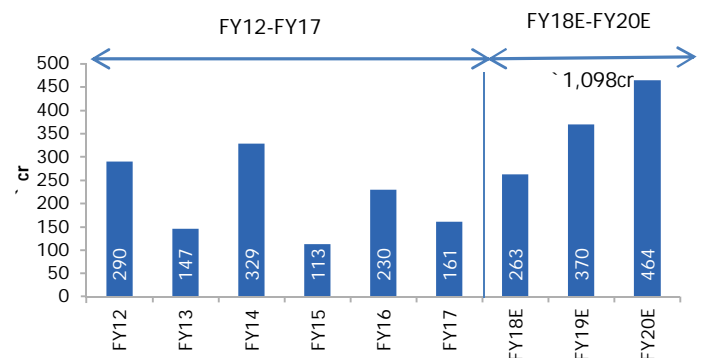
We believe that company is set to see free cash flow of ₹1,098cr over the next three years (FY2018E-20E), compared to ₹1,268 in the earlier six years (FY2012-17). This will be aided by improving margins, lower capex requirement and sweetening of the domestic assets.

Exhibit 29: Lower capex to improve FCF/CFO



Source: Company, Angel Research

Exhibit 30: Period of strong cash generation ahead

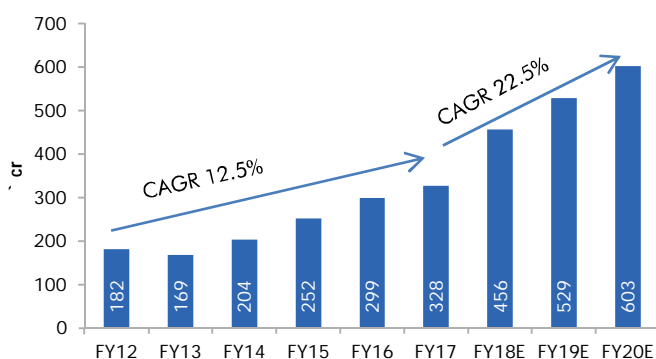


Source: Company, Angel Research

Endurance has been strengthening its balance sheet over the last five years. In FY2012 company had debt of ₹980cr, which has reduced to ₹694cr in FY2017. The debt to equity ratio was at 1.6x in FY2012, which has come down to 0.4x in FY2017. Over the years, company has improved the balance sheet by reducing the debt and achieving operational efficiency. With the strong free cash flow generation over the next three years, we believe that the company is likely to become debt free in FY2020E.

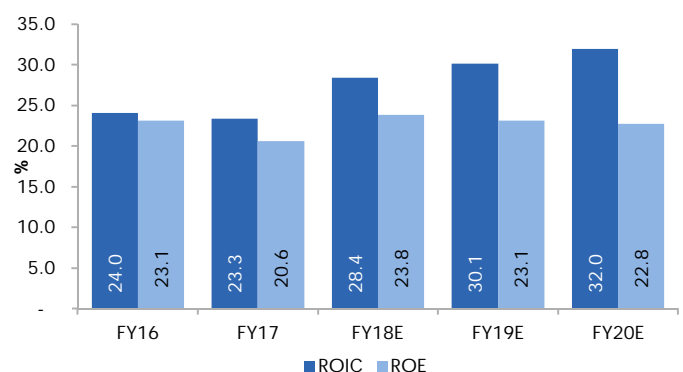
**Profitability and Return ratios:** With the improving balance sheet and higher profitability, company has consistently maintained ROE of 18-20% over the period of FY2012-17. Also, with the improving cash profile, the ROIC ratio has been mostly above 22%, and we believe that Endurance would continue this trend. We forecast average ROE of 23% and average ROIC of ~30% over FY2018E-20E.

Exhibit 31: PAT CAGR of 22.5% over FY2017-20E



Source: Company, Angel Research

Exhibit 32: Average 23% ROE over FY2018E-20E



Source: Company, Angel Research

**Endurance v/s. peers:** There is no clear comparable peer for Endurance Technologies due to its multiproduct profile therefore we look at bigger auto ancillary universe. While Endurance is the largest 2W auto ancillary in India, we believe that it is best placed in terms of operating performance, returns, product segments, etc.

Majority of domestic auto ancillaries are single product ancillaries. While Endurance Technologies was not so different in business a few years ago, company has been deliberately growing its business in other segments as well as has expanded in Europe as well. During this period, Endurance has become a

diversified ancillary with operations across 2W, 3W and 4Ws (Europe) and we believe the revenue mix will be far different in the next three years.

Endurance's EBITDA margins are already better than most domestic ancillaries but compared to the MNC ancillaries, there is a further scope for improvement. While Endurance's main breadwinner is casting business, the increasing pie of its proprietary products is likely to see rapid improvement in its margin profile. Over the next three years, we believe that Endurance is positioned to see more than 100bps improvement in its EBITDA margins.

On the returns front, Endurance is amongst the top ranked ancillaries with its 20% ROE. Gabriel India, Wabco India, and Bosch have better ROE profile than Endurance. We forecast Endurance to see 200-250bps jump in the ROE profile over the next three years.

We like Endurance's diversifying business, multiproduct focus and improving returns/margins which stand out v/s. its most peers.

#### Exhibit 1: Endurance has better operating performance and has a scale to grow

Name of the company	Business Description	Mcap (₹ cr)	Revenue (₹ cr)	EBITDA margins	Adj PAT(₹ cr)	ROE	ROIC	ROCE
Bosch	Multiproduct, diversified	65,653	10,435	21.6%	1,293	14.7%	63.6%	20.5%
<b>Endurance</b>	<b>Multiproduct, diversified</b>	<b>15,346</b>	<b>5,588</b>	<b>13.5%</b>	<b>328</b>	<b>19.0%</b>	<b>23.3%</b>	<b>19.2%</b>
WABCO India	Multiproduct, diversified	11,902	2,067	15.8%	200	15.8%	41.4%	20.9%
Minda Industries	54% 4W, 46% 2W	7,133	3,505	10.9%	167	16.3%	25.0%	15.9%
Gabriel India	Suspension	2,873	1,529	9.3%	82	18.3%	28.5%	23.3%
Lumax Industries Ltd	Lightings across vehicle types	1,415	1,300	7.7%	55	17.4%	21.5%	14.5%
Rico Auto Industries	Castings	1,316	1,079	10.5%	49	9.5%	9.5%	8.7%
Munjal Showa	2W, 3W, 4W	1,100	1,460	6.5%	53	10.3%	19.6%	12.9%

Source: Capitaline, Angel Research, Mcap is current, P&L numbers and returns based on FY17 numbers

#### Outlook and valuation

Shares of Endurance have seen a strong appreciation since its listing last year. At the CMP of ₹ 1,095, the stock is trading at the PE of 26x of its FY2020E EPS. We forecast top-line and bottom-line CAGR of 14.3% and 21.3% respectively over the next three years. We also forecast ~150bps/200bps jump in its EBITDA margins and ROE respectively. With the strong FCF generation, we believe that Endurance will become almost debt free in the next three years. We also look at the MNC Auto ancillaries which are richly valued and believe that Endurance should command premium over its homegrown domestic peers.

We value Endurance Technologies at 29.0x of its FY2020E EPS of ₹ 42.8 to derive the core business price target of ₹ 1,242 and add ₹ 35, NPV of ABS opportunity to derive the target price of ₹ 1,277, implying 15% upside.

### Income statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
<b>Total operating income</b>	<b>5,230</b>	<b>5,588</b>	<b>6,665</b>	<b>7,479</b>	<b>8,351</b>
% chg	6.4	6.8	19.3	12.2	11.7
<b>Total Expenditure</b>	<b>4,551</b>	<b>4,833</b>	<b>5,725</b>	<b>6,387</b>	<b>7,098</b>
Raw Material Consumed	3,114	3,226	3,852	4,308	4,794
Personnel Expenses	482	546	640	696	768
Others Expenses	954	1,061	1,233	1,384	1,537
<b>EBITDA</b>	<b>680</b>	<b>755</b>	<b>940</b>	<b>1,092</b>	<b>1,253</b>
% chg	12.3	11.2	24.4	16.2	14.7
(% of Net Sales)	13.0	13.5	14.1	14.6	15.0
Depreciation & Amortisation	243	291	311	367	430
<b>EBIT</b>	<b>436</b>	<b>465</b>	<b>629</b>	<b>725</b>	<b>822</b>
% chg	15.4	6.6	35.2	15.2	13.5
(% of Net Sales)	8.3	8.3	9.4	9.7	9.8
Net Interest charges	16	0	(9)	(15)	(20)
<b>Recurring PBT</b>	<b>420</b>	<b>465</b>	<b>638</b>	<b>740</b>	<b>843</b>
% chg	16.9	10.5	37.3	15.9	13.9
Extraordinary Expense/(Inc.)	-	-	-	-	-
<b>PBT (reported)</b>	<b>420</b>	<b>465</b>	<b>638</b>	<b>740</b>	<b>843</b>
Tax	120	134	182	211	240
(% of PBT)	28.5	28.9	28.5	28.5	28.5
<b>PAT before MI</b>	<b>300</b>	<b>330</b>	<b>456</b>	<b>529</b>	<b>603</b>
Minority Interest (after tax)	1	2	-	-	-
Profit/Loss of Associate Company	-	-	-	-	-
<b>PAT after MI (reported)</b>	<b>299</b>	<b>328</b>	<b>456</b>	<b>529</b>	<b>603</b>
Exceptional items	-	-	-	-	-
<b>Reported PAT</b>	<b>299</b>	<b>328</b>	<b>456</b>	<b>529</b>	<b>603</b>
% chg	18.6	9.5	39.1	15.9	13.9
(% of Net Sales)	5.7	5.9	6.8	7.1	7.2
<b>Basic EPS (₹)</b>	<b>21.3</b>	<b>23.3</b>	<b>32.4</b>	<b>37.6</b>	<b>42.8</b>
<b>Fully Diluted EPS (₹)</b>	<b>21.3</b>	<b>23.3</b>	<b>32.4</b>	<b>37.6</b>	<b>42.8</b>
% chg	18.6	9.5	39.1	15.9	13.9

### Balance sheet

Y/E March (Cr)	FY16	FY17	FY18E	FY19E	FY20E
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	18	141	141	141	141
Reserves & Surplus	1,432	1,589	1,963	2,327	2,683
<b>Shareholder's Funds</b>	<b>1,450</b>	<b>1,729</b>	<b>2,103</b>	<b>2,468</b>	<b>2,823</b>
Minority Interest	-	-	-	-	-
Total Loans	831	694	666	661	656
Other liabilities	39	37	39	40	42
Deferred Tax Liability	-	-	-	-	-
<b>Total Liabilities</b>	<b>2,320</b>	<b>2,460</b>	<b>2,808</b>	<b>3,169</b>	<b>3,521</b>
<b>APPLICATION OF FUNDS</b>					
Gross Block	1,689	2,005	2,393	2,826	3,311
Less: Acc. Depreciation	249	507	818	1,185	1,616
<b>Net Block</b>	<b>1,440</b>	<b>1,498</b>	<b>1,575</b>	<b>1,641</b>	<b>1,695</b>
Capital Work in Progress	103	44	44	44	44
Goodwill	147	135	135	135	135
Investments	48	33	33	33	33
Other long term assets	247	229	290	319	351
<b>Current Assets</b>	<b>1,295</b>	<b>1,570</b>	<b>1,930</b>	<b>2,294</b>	<b>2,685</b>
Inventories	410	444	511	574	641
Sundry Debtors	593	761	877	984	1,098
Cash	167	220	342	512	695
Loans & Advances	125	145	200	224	251
<b>Current liabilities</b>	<b>961</b>	<b>1,049</b>	<b>1,199</b>	<b>1,299</b>	<b>1,422</b>
<b>Net Current Assets</b>	<b>334</b>	<b>521</b>	<b>731</b>	<b>996</b>	<b>1,263</b>
<b>Total Assets</b>	<b>2,320</b>	<b>2,460</b>	<b>2,808</b>	<b>3,168</b>	<b>3,521</b>

### Cash flow statement

Y/E March (₹ cr)	FY16	FY17	FY18E	FY19E	FY20E
Profit before tax	420	465	638	740	843
Depreciation	243	291	311	367	430
Change in Working Capital	39	(89)	(147)	(122)	(114)
Interest / Dividend (Net)	47	32	31	30	30
Direct taxes paid	(105)	(134)	(182)	(211)	(240)
Others Expenses	54	(23)	-	-	-
<b>Cash Flow from Operations</b>	<b>698</b>	<b>541</b>	<b>651</b>	<b>804</b>	<b>949</b>
(Inc.)/ Dec. in Fixed Assets	(469)	(380)	(388)	(434)	(484)
(Inc.)/ Dec. in Investments	(46)	17	(0)	-	-
Others Expenses	6	2	-	-	-
<b>Cash Flow from Investing</b>	<b>(509)</b>	<b>(361)</b>	<b>(388)</b>	<b>(434)</b>	<b>(484)</b>
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(1.5)	(86.1)	(28.0)	(5.0)	(5.0)
Dividend Paid (Incl. Tax)	(29.6)	(6.3)	(70.3)	(140.7)	(211.0)
Others	(83.0)	(33.8)	(42.5)	(53.7)	(65.4)
<b>Cash Flow from Financing</b>	<b>(114)</b>	<b>(126)</b>	<b>(141)</b>	<b>(199)</b>	<b>(281)</b>
Inc./(Dec.) in Cash	76	54	122	170	183
Opening Cash balances	90	166	220	342	512
<b>Closing Cash balances</b>	<b>166</b>	<b>220</b>	<b>342</b>	<b>512</b>	<b>695</b>

### Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E	FY20E
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	52.2	47.6	34.2	29.5	25.9
P/CEPS	28.8	25.3	20.4	17.4	15.1
P/BV	10.8	9.0	7.4	6.3	5.5
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	3.1	2.9	2.4	2.1	1.9
EV/EBITDA	24.0	21.3	17.0	14.4	12.4
EV / Total Assets	5.0	4.6	4.0	3.5	3.2
<b>Per Share Data (₹)</b>					
EPS (Basic)	21.3	23.3	32.4	37.6	42.8
EPS (fully diluted)	21.3	23.3	32.4	37.6	42.8
Cash EPS	38.6	44.0	54.5	63.7	73.4
DPS	2.1	2.5	5.0	10.0	15.0
Book Value	103.1	122.9	149.5	175.4	200.7
<b>Dupont Analysis</b>					
EBIT margin	8.3	8.3	9.4	9.7	9.8
Tax retention ratio	0.7	0.7	0.7	0.7	0.7
Asset turnover (x)	2.5	2.6	2.8	2.9	3.0
ROIC (Post-tax)	15.1	15.2	18.8	20.1	21.4
Cost of Debt (Post Tax)	0.0	0.0	(0.0)	(0.0)	(0.0)
Leverage (x)	0.5	0.3	0.2	0.1	(0.0)
Operating ROE	22.0	19.4	21.7	21.3	21.1
<b>Returns (%)</b>					
ROCE	19.1	19.2	22.7	23.2	23.6
Angel ROIC (Pre-tax)	24.0	23.3	28.4	30.1	32.0
ROE	23.1	20.6	23.8	23.1	22.8
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	3.1	2.8	2.8	2.6	2.5
Inventory / Sales (days)	29	29	28	28	28
Receivables (days)	41	50	48	48	48
Payables (days)	52	56	54	52	51
Working capital cycle (ex-cash) (days)	18	22	22	24	25
<b>Solvency ratios (x)</b>					
Net debt to equity	0.4	0.3	0.1	0.0	(0.0)
Net debt to EBITDA	0.9	0.6	0.3	0.1	(0.1)
Interest Coverage (EBIT / Interest)	27.3	1,409.0	(66.9)	(48.2)	(40.2)

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Disclosure of Interest Statement	Endurance Technologies
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

**Ratings (Based on expected returns over 12 months investment period):**

Buy (> 15%)

Accumulate (5% to 15%)  
Reduce (-5% to -15%)

Neutral (-5 to 5%)  
Sell (< -15)