

Endurance Technologies Ltd. (ETL) - Robust play in Auto components sector - "SUBSCRIBE"

3rd Oct., 2016

Incorporated on 27th December 1999, ETL is the largest Two-Wheeler and Three-Wheeler Automotive Component Manufacturer in India in terms of aggregate revenue for FY2015. ETL has strong domain experience in the two-wheeler, three-wheeler and four-wheeler Automotive Components Industry. ETL provides End-to-end Service to Customers - by capabilities across design, development, validation, testing, manufacturing, delivery, and aftermarket sale service for a wide range of technology-intensive auto component products. Anurang Engineering Company Pvt. Ltd. ("AECPL"), (which merged into ETL with effect from August 11, 2006), commenced manufacture of Aluminium Castings in Aurangabad, Maharashtra in FY1986. Over time, by consolidating the Promoter's companies into one company, ETL has diversified their capabilities by introducing Suspension products in 1996, transmission products in 1998 and Braking Systems in 2004. Starting from one manufacturing facility in 1985, ETL now operates 18 manufacturing facilities in India. Today, ETL is multi-solution Provider with a Diverse Product Portfolio 4 Product Segments - Aluminum Casting and Machining, Suspension, Transmission & Braking Systems. In India, ETL is the number one Aluminium Die-Casting company in terms of actual output and installed capacity in FY2016. For FY15, FY16 and Q1 FY17, ETL's total revenue contribution from India was 71.5%, 70.1% and 66.8%, respectively, while total revenue contribution from Europe was 28.5%, 29.9% and 33.2%, respectively. According to management, Brexit has impacted their business operations in terms of topline and bottomline.

Manufacturing facilities

The Company has strategically located facilities with close proximity to Original Equipment Manufacturers (OEMs) with 25 facilities in 8 Locations across India & Europe (Italy & Germany).

Strong presence in Europe

In Europe, ETL manufacture a wide range of raw and machined aluminium die-casting products, such as components for engines, transmissions and vehicle bodies. In addition, manufactures components for aspirated and turbocharged engines, many of which are required to meet Euro VI emissions standards. Their components are used in the engines of a variety of passenger vehicles manufactured by automobile producers including FCA Italy S.p.A. (such as Jeep, Chrysler, Alfa Romeo, Abarth, Fiat and Lancia), Daimler and other reputable four-wheeler OEMs operating from Europe. ETL's strategy in Europe has been to expand with a focus on profitable growth, high margin products, and marquee customers, and they have pursued this strategy through organic growth as well as a series of acquisitions. In Europe, the number of plants has increased from 3 as of March 31, 2014 to 7 as of March 31, 2016. In the second quarter of FY2017, ETL expect to commission an additional machining plant, which is currently under construction, in Germany.

Robust R&D Capabilities and Financial Performance

The Company boasts of strong R&D Capabilities with 4 Patents and 1 design registrations received, 41 Patent and 3 design registration applications, 4 DSIR(2) approved R&D facilities. ETL has recently acquired approximately 26 acres of land in Aurangabad, Maharashtra, India to develop an automotive proving ground (test track), which is expected to be operational by the end of 2018. The Company has profitability with Scale, Improved RoCE and Delevered Balance Sheet. For FY16, Consolidated Revenue stood at Rs52,745mn; 8.6% total revenue CAGR in India vs 2W production growth of 5.6% over FY14-16 in India; FY16 Avg. RoCE: 21.9%; FY16 Avg ROE: 22.5%; Net Debt/Equity:0.4x

Anchor bidding	October 04, 2016
Issue date	October 05 - 07, 2016
Type of issue	Offer for sale – 24.61 mn eq. shares
Issue size	Rs. 11,615 mn
Face Value	10
Price Band	Rs. 467 - 472
Market Lot	30 shares
Min. order quantity	30 shares
Post issue Market Cap.	Rs. 66,393 mn at upper end of price band
Issue structure	QIB – 50%, Non institutional – 15% Retail – 35%
BRLM	Axis Capital, Citigroup
Registrar to the issue	Link Intime

Y/e 31 Mar (Rs. mn)	Q1FY17	FY16	FY15	FY14
Revenue from operations	14,426	52,406	49,170	42,119
EBITDA	1,935	7,106	6,373	5,692
OPM (%)	13.41	13.56	12.97	13.51
PAT	801	2,912	2,524	2,045
PAT (%)	5.55	5.56	5.13	4.86
Post Issue EPS (Rs.)	5.69	20.70	17.94	14.54
P/E at upend end of price band (x)	21##	23	26	32
Share Capital	1406.63	175.83	175.83	192.63
Reserves	13,946	14,380	11,242	9,612
Networth	15,353	14,556	11,418	9,805
Total Debt	7,321	6,065	5,806	4,968
Debt/Equity (x)	0.48	0.42	0.51	0.51

- indicates P/E (x) at Q1FY17 Annualized Consolidated EPS

Investment Rationale and Recommendation

With due consideration to factors like a) India's largest two - wheeler and three - wheeler auto component manufacturer in terms of revenue for FY2015, b) consistent track record of organic and inorganic growth, c) largest two-wheeler and three wheeler auto component player in India, d) strong customer relationships with marquee clients both domestic (Bajaj Auto, Hero, Eicher) and globally (Daimler, FCA Italy, S.p.A, Chrysler, Jeep, Yamaha, Piaggio etc.), e) growing and profitable European business, f)strong R&D capabilities with 4 patents and 3 design registration applications, g)going forward focus on high-growth markets: two-wheelers and three-wheelers in India and passenger cars in Europe, h)strong profitability with scale, i) delivering consistent returns to shareholders - FY16 average ROE of 22.5% and FY16 average RoCe OF 21.9%, we believe that the Company is strongly positioned against its peers both domestic and globally. Thus, IPO valuation of 23x on FY16 EPS is justified and we recommend to "SUBSCRIBE" the issue.

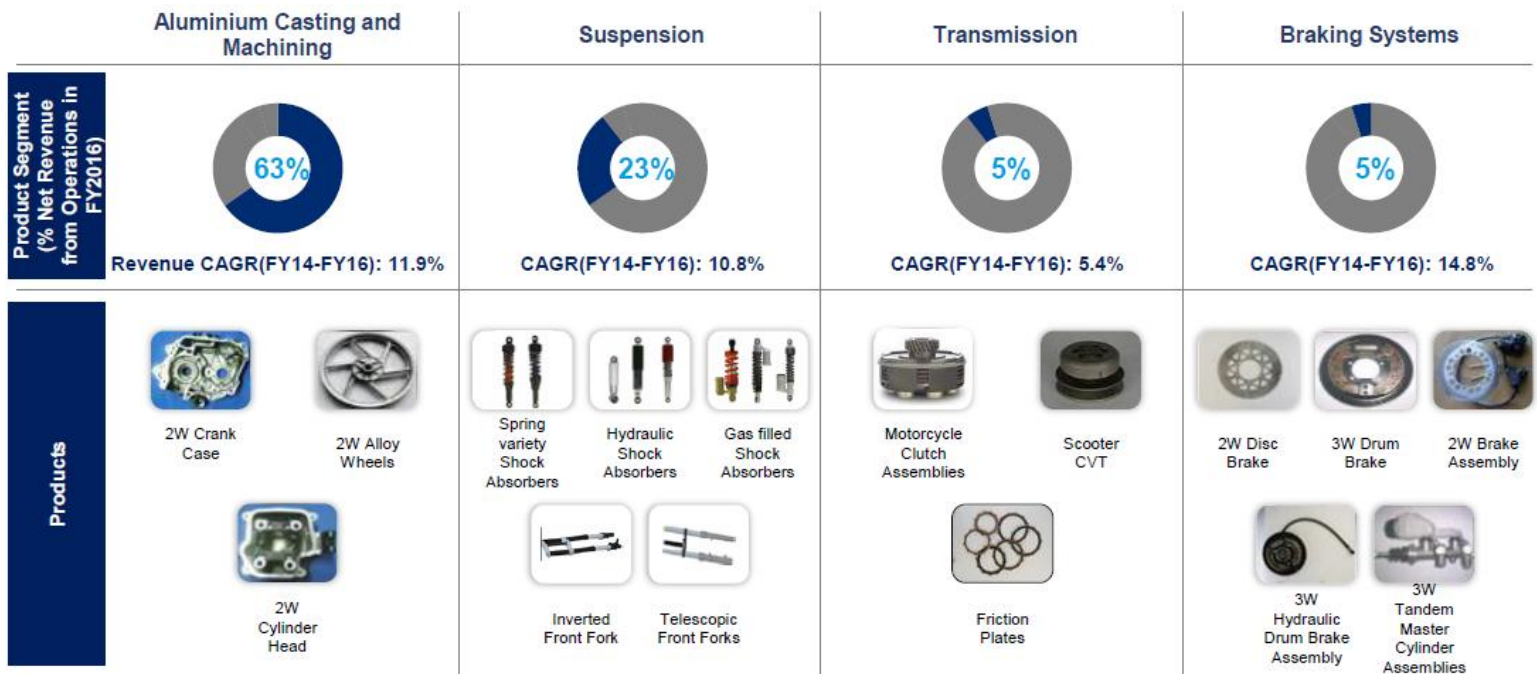
Objects of the issue

- 1) Achieve the benefits of listing the Equity Shares on stock exchanges ;
- 2) To carry out the sale of Equity Shares by the Selling Shareholder – (Actis Components and System Investments Ltd – 19,295,968 equity shares ; Mr. Anurang Jain – Promoter Selling Shareholder – 5,317,056 equity shares),
- 3) Provide liquidity to the existing shareholders

Promoters and Management background

- 1) Mr. Naresh Chandra is the Chairman and Non-Executive Director of the company. He has been associated with the company since incorporation and has over 55 years of experience, with over 33 years in the automobile industry.
- 2) Mr. Anurang Jain is the Promoter and Managing Director of the company. He has been associated with the company since its incorporation and has over 31 years of experience in the automobile components industry. He is responsible for the overall operations of the company.
- 3) Mr. Ramesh Gehaney is an Executive Director and Chief Operating Officer of the company. He has experience of over 30 years of which 24 years are in the automotive industry. He is currently overseeing the entire manufacturing operations of the company.
- 4) Mr. Satrajit Ray is an Executive Director and Group Chief Financial Officer of the company. He has experience of over 32 years.
- 5) In addition to Mr. Anurang Jain-the Managing Director, Mr. Satrajit Ray-the Executive Director and Group Chief Financial Officer and Mr. Ramesh Gehaney-the Executive Director and Chief Operating Officer, Mr. Biswajit Choudhury, Mr. Ravindra Kharul, Mr. Makarand Deshpande, Mr. Sunil Kolhe and Mr. Massimo Venuti are the Key Management Personnel of the company.
- 6) ETL has won several Certificates of Recognition/ Certificates of Appreciation awards for their Manufacturing Excellency.

Business Model – Bird's eye view



Source: Company, Ajcon Research

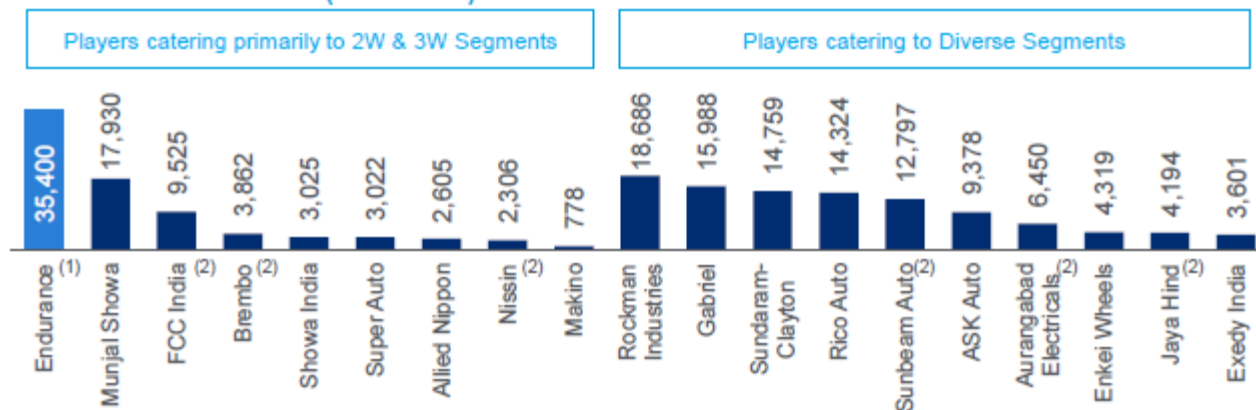
Competition Mapping

	Aluminum Castings	Suspension	Transmission	Braking Systems
Endurance India	✓	✓	✓	✓
Munjial Showa	-	✓	-	-
Gabriel India	-	✓	-	-
Sundaram Clayton	✓	-	-	-
FCC India	-	-	✓	-
Sunbeam Auto	✓	-	-	-
Jaya Hind Industries	✓	-	-	-
Brembo India	-	-	-	✓
Exedy	-	-	✓	-
NISSIN	-	-	-	✓
Makino	-	-	✓	-

Source: Company, Ajcon Research

Largest 2W and 3W Auto Component Manufacturer in India⁽³⁾

India Revenue—FY2015 (in INR mn)

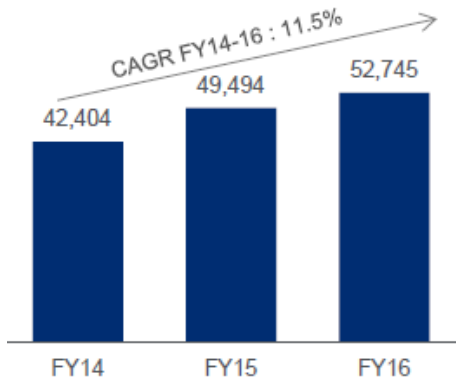


Source: CRISIL Research.

Financial Performance

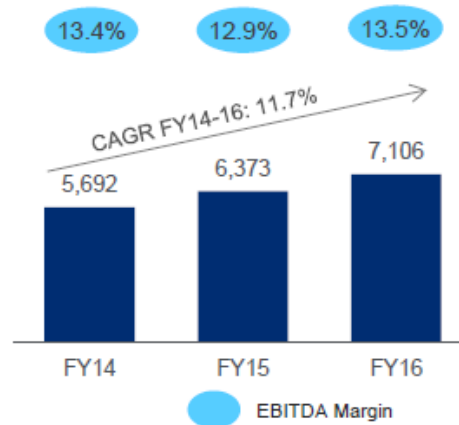
Total Revenue

(INR mn)



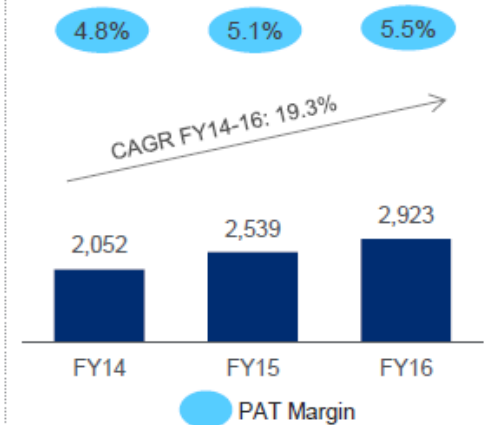
EBITDA and EBITDA Margin

(INR mn / %)



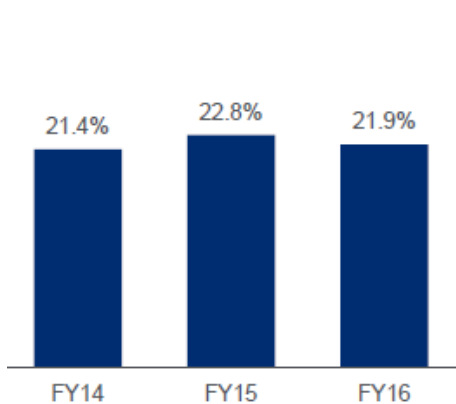
PAT and PAT Margin⁽¹⁾ (Before Minority Interest)

(INR mn / %)

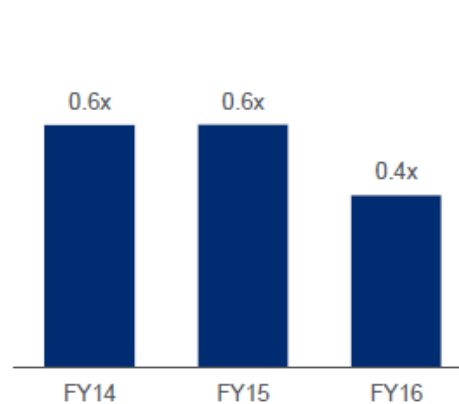


Average Return on Capital Employed⁽²⁾

(%)



Net Debt / Equity Ratio (x)



Credit Rating Improvement⁽³⁾

	Apr 2013	Feb 2015	Aug 2016
Long-term bank facilities	CARE ● BBB	CRISIL ● AA- Stable	CRISIL ● AA- Positive
Short-term bank facilities	CARE ● A3+	CRISIL ● A1+	CRISIL ● A1+

Source: Company, Ajcon Research



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