

## BID

Key Data	
Floor Price (Rs)	1100
Face Value(Rs)	10/-
Issue Size(Rs)	1160.8cr
Total offered shares	1,05,52,688
NSE Code	ENDURANCE
BSE Code	540153
52 Week High (Rs)	1579
52 Week Low (Rs)	1065
Retail	
Issue Opens	March 07, 2019
Issue Closes	March 07, 2019
Retail offered shares	10,55,268
Source: BSE India	

## Endurance Technologies Ltd

### Company Background:

The journey of Endurance Tech Ltd. (Endurance Tech) commenced since 1985 with two aluminium die casting machines. Over the past 33 years, the company has emerged as one of India's leading automotive component manufacturing companies operating 16 plants in India and 8 plants in Europe. As on FY18, the company derived 71% of its business from the domestic market and balance 29% from the European markets.

Currently, Endurance Tech is the largest aluminium die casting manufacturer in India and one of the leading automotive component manufacturers in aluminium die casting (including alloy wheels), suspension, transmission, and braking systems. The company is a complete solution provider from design to after-market service.

### Endurance Tech's products and services in India include:

- Raw and machined aluminium castings such as high pressure die castings, low pressure die castings, and aluminium alloy wheels for motorcycles.
- Suspension products such as shock absorbers for scooters, motorcycles and 3 wheelers, front fork for motorcycles & scooters, and hydraulic dampers for quadricycles.
- Transmission products such as clutch assemblies, cork and paper-based friction plates for motorcycles and 3 wheelers and Continuous Variable Transmission (CVT) assemblies for scooters.
- Braking systems such as hydraulic disc brake assemblies including calipers, master cylinder and rotary disc brake for motorcycles & scooters, and hydraulic drum brake assemblies and tandem master cylinder for 3 wheelers.
- After-market services to cater to the replacement market.

In Europe, Endurance Tech predominantly caters to the 4 wheeler OEMs, focusing on engine and transmission components. Its products include raw and machined aluminium castings (high pressure and gravity die castings products) and steel, cast iron, and engineering plastic parts.

### Issue Objectives:

In order to meet the minimum public shareholding norms as per the SEBI guidelines, the promoter of the company i.e. Mr. Anurag Jain, proposes to sell up to 63,63,637 equity shares representing 4.52% of the total paid up equity share capital with an option to additionally sell 41,89,051 equity shares (oversubscription options) representing 2.98% of the total paid up equity shares capital of the company of face value of Rs 10/- each. The floor price has been set at Rs 1100/- per share.

### Allocation Methodology:

The allocation would be on a price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on March 06, 2019 for institutional bidders. Retail investors for whom 10% shares have been reserved will get to bid on March 07, 2019.

### Analyst

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## Rationales:

### Consistent track record of organic and inorganic growth

Since incorporation, Endurance Tech has grown organically, including consolidation of their own promoter's companies into one company. The company has diversified its capabilities by introducing suspension products in 1996, transmission products in 1998, and brake systems in 2004. In addition to their organic growth, the company has a track record of successful inorganic growth through various acquisitions. They entered the Europe market with the acquisition of a pressure die casting and machining company, Endurance Amann, their German subsidiary, in FY07 and the acquisition of Endurance Fondalmecc, an Italian subsidiary, in FY08. Further, they expanded their European operations with the acquisition of a 15% stake in Endurance FOA in FY13 and Grana's business division engaged in the production of engineering moulded plastic components in FY15. They completed the acquisition of Endurance FOA by acquiring the remaining 85% in FY2015. Recently, Endurance Tech acquired 100% stake in aluminium casting company, Fonpresmetal GAP SpA for 8.16mn euro in Italy. Endurance Tech believes that their record of consistent profitable growth is demonstrated by the fact that they have consistently outperformed growth in the broader industry in India and Europe through the successful expansion of customer base, focus on R&D, ability to manage costs, and short production cycle.

### Diversified products portfolio

Endurance Technology is a leading aluminium die casting manufacturer in India and the second largest 2 wheeler and 3 wheeler auto component manufacturer for its products segments. They are a multi-solution provider of a diverse product portfolio to a wide variety of OEMs, which provides them with a revenue profile that is diversified across products. They are also a complete solutions provider, providing end-to-end services by engaging their customers from conception to end-user delivery. Within four key product segments, the company manufactures a wide range of products to service the diverse requirements of their customers, particularly in the motorcycle, scooter, and 3 wheeler segments in India, and the 4 wheeler segments in Europe.

### Sticky customer relationships and new order win to drive future growth

The company's customers in India and Europe include leading domestic and global OEMs. Their largest customers in India are Bajaj Auto, Royal Enfield, Honda, and Yamaha. In addition to these customers, Endurance Tech also supplies to a variety of other OEMs in India such as Hero, Mahindra, Tata Motors Limited, H-D Motor Company India Pvt. Ltd., and Fiat India. Further, the company recently added TVS Motors as its customer with a disc brake order worth Rs. 40cr p.a. In Europe, their largest customer is FCA Italy SPA along with other OEMs such as Daimler, as well as other reputable 4 wheeler OEMs operating from Europe. In order to increase their share of business with customers, the company typically enters into a new customer relationship with one particular product line, generally castings, seeking to demonstrate the quality and cost efficiency of their products and services and then strengthen their relationship so that they are able to expand into other product segments, helping them to grow the overall business. As on 9MFY19, the company has received new business to the tune of Rs. 920cr from Kia, Hyundai, HMSI, HMCL, Yamaha, RE, Tata Motors (CV), and TVS Motors in its standalone business. Further, new order wins in Europe business was Euro 10.5mn in Q3FY19. The company also won business with HMSI for supplies of inverted front forks for 50k vehicles p.a. starting from Jun-20.

### Strong financial performance with a robust balance sheet

Over the years, Endurance Tech has shown a proven track record of delivering robust profitable growth. In the last five years (FY14-FY18), the company's revenue and profitability have grown at a CAGR of 11.5% and 17.5% respectively. During the same period, the company's operating margin has improved by 110bps i.e. 13.4% in FY14 to 14.5% in FY18. As on 9MFY19, the company's revenue and profitability has grown at 18.2% and 26.2% respectively on YoY basis. The company has a robust balance sheet with net leverage ratio standing at 0.10x as on Sept 2018. Further, the company has superior return ratios with ROCE and ROE stands at 23.3% and 18.0% respectively as on FY18. Moreover, the company is fully geared up to capitalize on BSVI opportunities starting April 2020. Hence, we believe the company would continue to deliver profitable growth trajectory and could generate improved returns in the coming years.

## Recommendations:

At floor price of Rs 1100/-, the stock trades at 32.3x its FY19E EPS of Rs 34.0/- . We believe Endurance Technology is one of the best proxy plays on the domestic 2 wheelers and 3 wheelers industry with scope of sustained increase in content per vehicle. Further, given strong presence across automotive market segments followed by good growth potential in new products and technology, we believe Endurance Tech is well placed to capitalize on future growth potential. **Hence, we recommend to BID the OFS on a long term basis.**

# Asit C. Mehta

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