Initiating Coverage | 16 December 2016
Sector: Automobile

# Endurance Technologies


## Gaining ground

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# Endurance Technologies

| BSE Sensex | S&P CNX |
|---|---|
| 26,519 | 8,154 |

**CMP: INR565** **TP: INR715 (+27%)** **Buy**

ENDURANCE
Complete Solutions

**Endurance Technologies (ENDU) is a large, diversified auto component supplier, with a strong presence in India (~70% of consolidated revenue). Its India business is focused on aluminum die castings and proprietary products – suspension, transmission and braking systems – for two/three-wheelers (2W/3Ws). Its Europe business (30% of revenue) is focused on high-value machined aluminum die castings and sub-assemblies for passenger vehicles (PVs).**

**Stock Info**

| | |
|---|---|
| Bloomberg code | ENDU IN |
| Equity Shares (m) | 140.7 |
| 52-Week Range (INR) | 675 / 519 |
| M.Cap. (INR b) | 79.5 |
| M.Cap. (USD b) | 1.2 |

**Financial Snapshot (INR b)**

| INR million | FY17E | FY18E | FY19E |
|---|---|---|---|
| Sales | 57.3 | 65.2 | 73.6 |
| EBITDA | 7.6 | 9.0 | 10.4 |
| NP | 3.3 | 4.2 | 5.0 |
| EPS (Rs) | 23.5 | 29.7 | 35.8 |
| EPS Growth (%) | 13.4 | 26.4 | 20.5 |
| BV/Share (INR) | 124.7 | 150.1 | 178.1 |
| P/E (x) | 24.1 | 19.0 | 15.8 |
| P/BV (x) | 4.5 | 3.8 | 3.2 |
| EV/EBITDA (x) | 11.2 | 9.3 | 7.8 |
| EV/Sales (x) | 1.5 | 1.3 | 1.1 |
| RoE (%) | 20.6 | 21.6 | 21.8 |
| RoCE (%) | 15.0 | 17.0 | 18.5 |

## Gaining ground

### Proven management at the helm

- **Endurance Technologies (ENDU) is a strong auto components supplier, with diversified revenue streams – castings (62.8% of consolidated revenue), suspension (23.3%), transmission (5.5%) and braking (4.6%) systems, and the aftermarket segment (3.8%). India accounts for ~70% of its consolidated revenue.**
- **With over 80% of its India revenue coming from 2W components, ENDU is well-positioned to ride the wave of 2W demand revival, thanks to its large market share in all the segments where it is present.**
- **The European business, which constitutes ~30% of ENDU's consolidated revenue, has been growing profitably, driven by strong growth at FCA Italy, new customer additions, and focus on high-value added products.**
- **We expect strong EPS growth (~20% CAGR over FY16-19E) and steady return ratios amid capacity expansion (RoE of ~22% in FY19E), driven by growing share of proprietary business and increasing utilization. We initiate coverage with Buy; our target price of INR715 (~20x FY19E EPS) implies 27% upside.**

### Riding on 2W demand recovery; could beat Indian 2W industry growth

- ENDU's product portfolio caters to nearly half the auto component categories for 2W/3Ws – aluminum die castings, alloy wheels, and braking, suspension and transmission systems.
- The 2W segment contributes ~80% to ENDU's standalone revenue and ~55% to its consolidated revenue. More importantly, ENDU enjoys a strong market share across all the sub-segments where it is present.
- Additionally, ENDU's content per 2W will continue to increase, driven by new products (like ABS/CBS) and cross-selling potential among existing customers.
- Given its increasing penetration among 2W customers and commencement of supplies to the Gujarat plants of HMSI and HMCL, ENDU is set to be a huge beneficiary of the 2W demand recovery in FY18E/19E.
- For the India business, we expect 12.3% revenue CAGR and 21.3% PAT CAGR over FY16-19E.

**Endurance Technologies**

**Flying high**

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Please click here for Video Link

### European business to grow profitably

- ENDU's European business has been growing rapidly over the past 3-4 years, aided by organic growth as well as acquisitions.
- It has incurred major capital expenditure (including towards a new machining plant) to drive business growth with its key customers in Europe.
- ENDU's strategy in Europe is focused on growing its share of value-added products by increasing full machining of castings and sub-assemblies, as well as adding high-value products.
- Margins in the European business are likely to gradually inch upwards, driven by increase in capacity utilization and further rationalization of content outsourcing as part of its overall cost control initiatives.
- We expect Europe business revenue to grow at a CAGR of 11.4% and PAT to grow at a CAGR of 16.8% over FY16-19.

### Large diversified business with expanding customer base

- ENDU has evolved from a single customer/single segment player to a multi-product, multi-customer business enterprise. It has diversified revenue streams – castings (62.8% of consolidated revenue), suspension (23.3%), transmission (5.5%) and braking (4.6%) systems, and the aftermarket segment (3.8%).
- Though Bajaj Auto (~60% of standalone business) remains ENDU's largest customer, with the recent addition of HMSI and HMCL, ENDU now has a presence among all the relevant 2W players in India.
- The Europe business is focused solely on raw and machined aluminum die-casting products, though it is continuously expanding its customer base. The FCA Group accounts for 50% of ENDU's Europe business; Daimler and other 4W European OEMs account for the remaining 50%.
- By investing in R&D and technology partnerships, ENDU has also managed to develop products like suspension, transmission and braking systems.
- ENDU's management is focused on driving profitable growth, increasing cash flow and improving capital efficiency, aided by its experience in carrying out acquisitions in Europe just prior to the global financial crisis.

### Valuation and view: Initiate with Buy rating

- ENDU offers strong management, diverse revenue profile, improving technological content, increasing customer wallet share, and financial discipline.
- All this is reflected in the company's strong growth prospects (revenue/EPS CAGR of 12%/20% over FY16-19E) and robust return ratios (~22% RoE in FY19E).
- The stock is trading at reasonable valuations of 19.0x/15.8x FY18E/19E respectively. We initiate coverage with a Buy rating and a target price of INR715 (~20x FY19E EPS).

## Story in charts

**Exhibit 1: Sales CAGR of 12% over FY16-19E**

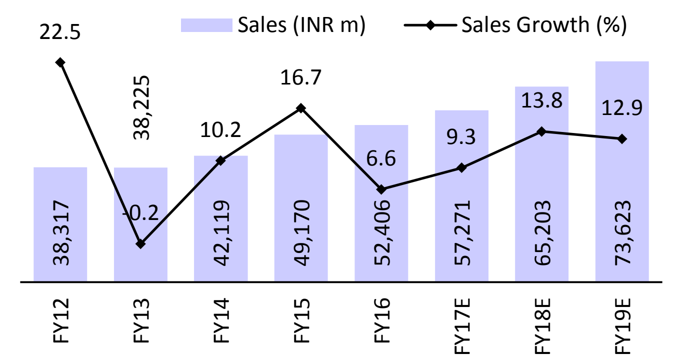



**Exhibit 2: PAT CAGR of 20% over FY16-19E**

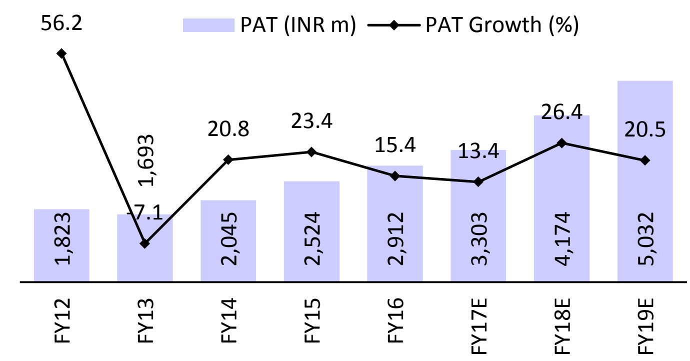



**Exhibit 3: Geographic break-up (%)**

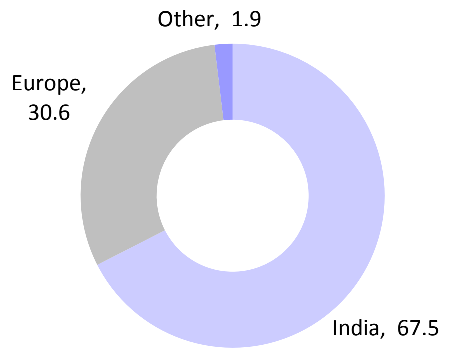



**Exhibit 4: Improving market share in India business (%)**

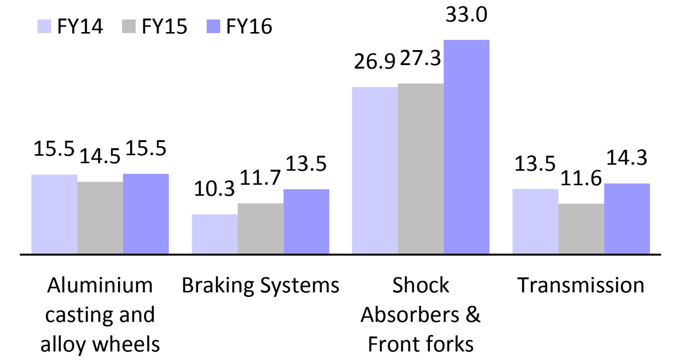



**Exhibit 5: Customer-wise break-up (%)**

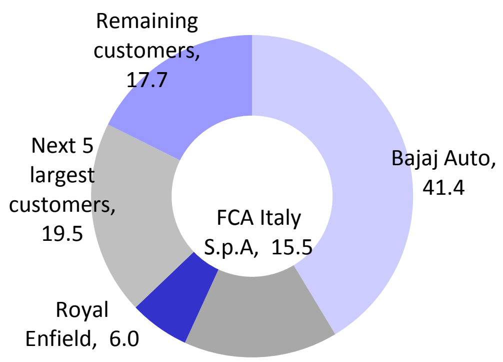



**Exhibit 6: Segment-wise break-up (%, consolidated)**

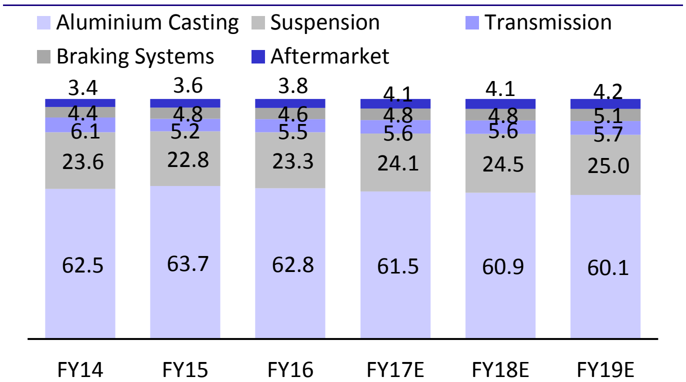



**Exhibit 7: Stupendous business growth over FY06-16 (INR m)**

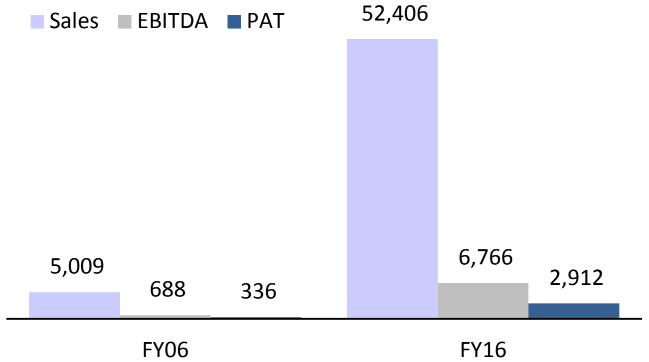
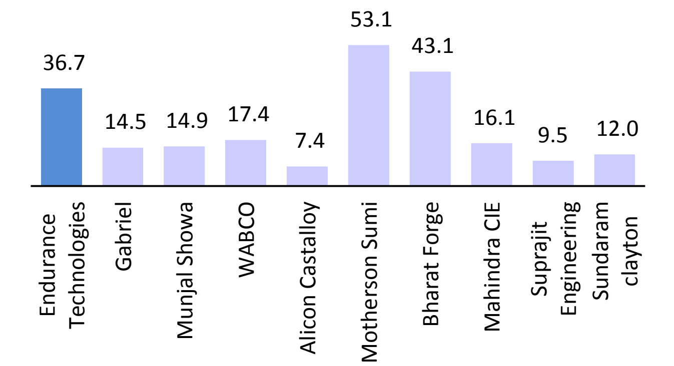



**Exhibit 8: Only a few large-scale, multi-product auto comps (INR b)**



# Well-positioned to ride 2W demand recovery wave

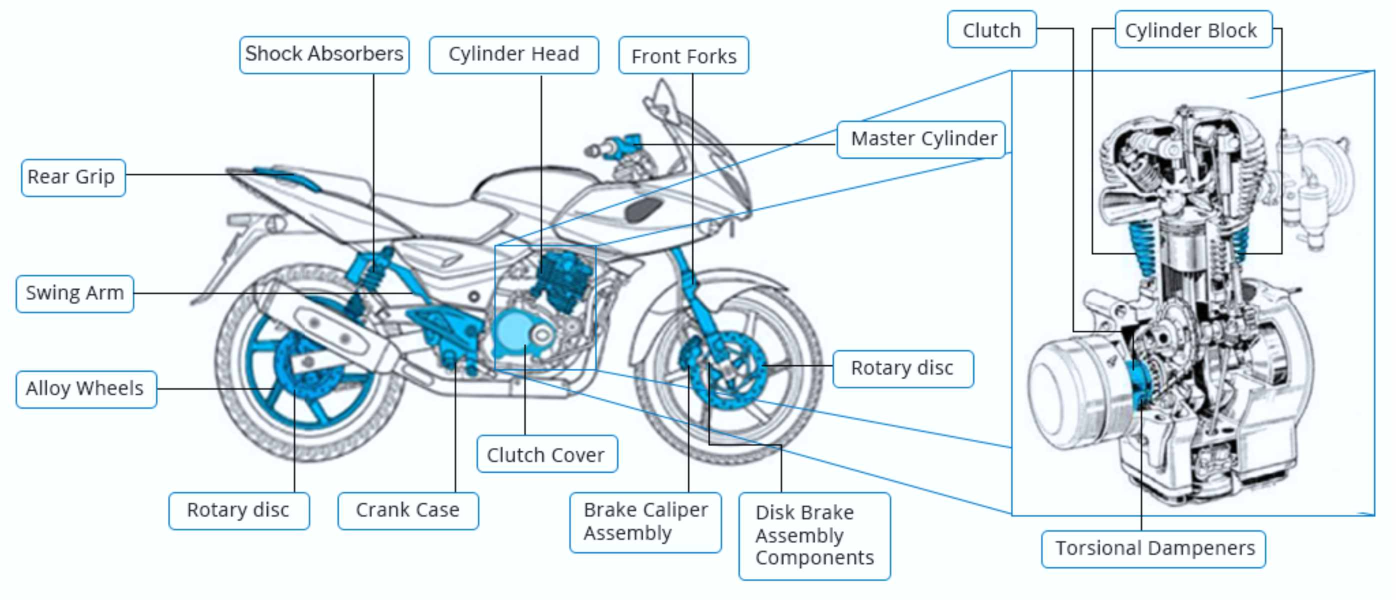
**~80% of standalone revenue contributed by 2W segment**

- **We expect the 2W demand in India to steadily recover in FY18E/19E, as the shock of demonetization wanes gradually. Normal monsoon coupled with 7th Pay commission benefits would led to recovery in demand, on back of low base of last two years (FY14-16 CAGR of 5.8%). We expect a CAGR of 10% in 2W industry volumes over the period FY16-19E.**
- **The 2W segment contributes ~80% to ENDU's standalone revenue and ~55% to its consolidated revenue. More importantly, ENDU enjoys a large market share in all the segments where it is present. Additionally, ENDU's content per 2W will continue to increase, driven by new products (like ABS/CBS) and cross-selling potential among existing customers.**
- **Given ENDU's rising penetration levels among 2W customers and pickup in supplies to the Gujarat plants of HMSI and HMCL, the company is all set to become a significant beneficiary of the 2W demand recovery.**
- **ENDU's India business has grown at a CAGR of 7.3% over the last four years, despite a slowdown in the 2W industry (CAGR of 5.3%). We expect ENDU to continue growing faster than the 2W industry (CAGR of 12.4% v/s 11.3% in 2W over FY16-19E), as it continues to add new customers and gain share of the customers' wallet.**

## Dominant player in Indian 2W auto components segment

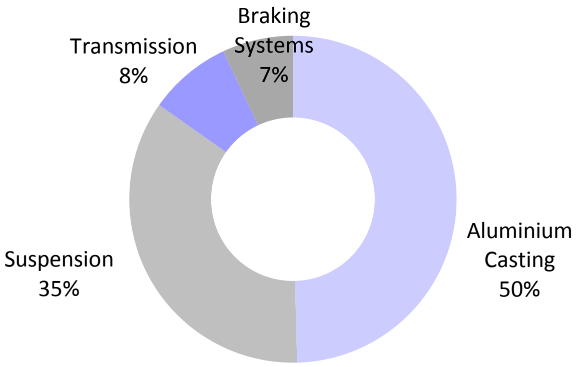
- In terms of value, the segments in which ENDU operates constitute ~45% of the total size of the auto components for 2W/3Ws.
- Castings (including alloy wheels) form the biggest chunk of ENDU's revenue, followed by suspensions.
- ENDU is now a supplier to almost all 2W manufacturers in India and partners with them for supplying suspension systems, despite strong competition from deeply entrenched players such as Gabriel, Munjal Showa, etc.

**Exhibit 9: Present in a wide gamut of products in the two-wheeler space**



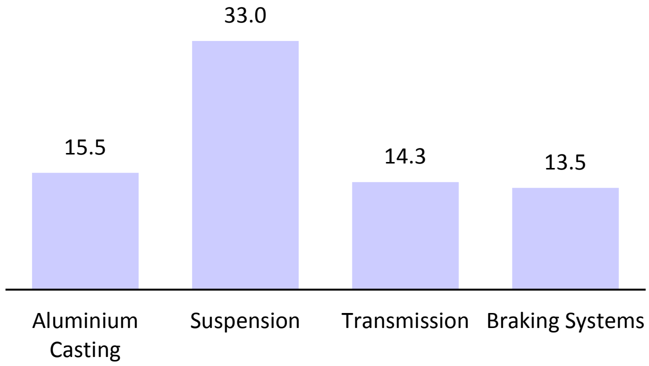

Source: Company, MOSL

**Exhibit 10: Standalone revenue mix (%; ex-replacement)**




Source: MOSL, Company

**Exhibit 11: Segment-wise market share (%)**




Source: MOSL, Company

**Exhibit 12: Dominant player in 2W auto components segment**

| ENDU's revenue from the segment in FY16 | (INR m) |
|---|---|
| Castings & alloy wheels | 17,235 |
| Suspension | 12,224 |
| Transmission | 2,859 |
| Braking systems | 2,433 |
| **Market share** | **(%)** |
| Castings & alloy Wheels | 15.6 |
| Suspension | 33.0 |
| Transmission | 14.1 |
| Braking systems | 13.5 |

Source: MOSL, Company

**Exhibit 13: A snapshot of business segments (domestic segments)**

| Business Division | Segment | Segmental Revenue (INR b) | Market Sh. (%) | Competition |
|---|---|---|---|---|
| Aluminum castings | 2W/3W (India) | 17.2 | 15.5 | • Sunbeam, Rico Auto, Sundaram Clayton, Jay Hind Inds. |
| Aluminum alloy wheels | 2W | | | • Enkei Wheels, Rockman Inds. and Chinese competitors |
| Brake systems | 2W/3W | 2.4 | 13.5 | • ASK Auto, Allied Nippon, Brembo, Bosch, Continental, NISSIN |
| Telescopic front forks/shock absorbers | 2W | 12.2 | 33.0 | • Gabriel, Munjal Showa, Showa India |
| Clutch assemblies | 2W/3W | 2.9 | 14.3 | • FCC, Makino, Exedy, Rico |
| CVTs | 2W | | | • FCC, Exedy (transmission systems) |

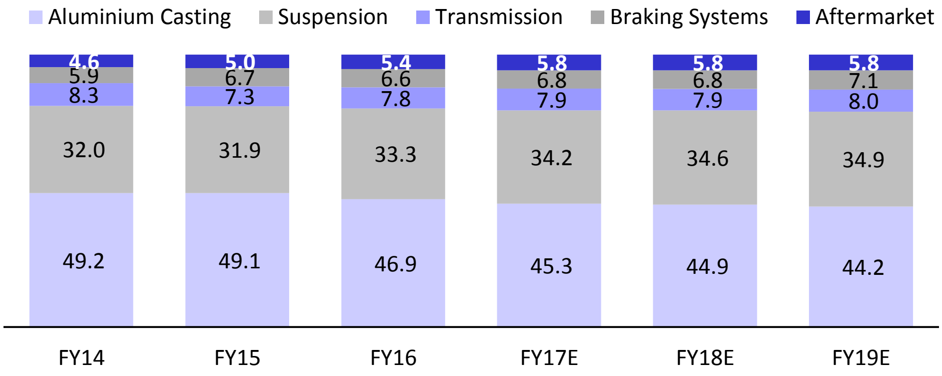
Source: MOSL, Company

## Growing faster than 2W industry on new customer additions

- ENDU's India business has grown at a CAGR of ~7.3% over the last four years, despite a slowdown in the 2W industry (CAGR of 5.3%), on the back of new customers and increase in its content per vehicle.
- ENDU has diversified into new categories such as suspension, transmission and braking systems (collectively "proprietary systems"), aided by its technology partnerships and strong customer relationships. As a result, the share of these profitable proprietary systems in the company's revenue has been steadily increasing (46.9% in FY16 v/s 58.5% in FY10).
- ENDU is focusing on further ramping up the contribution from proprietary systems over the next few years, driven by a ramp-up in segments like brakes (including ABS/CBS), transmission systems, etc.

- We expect ENDU to continue growing faster than the 2W/3W industry (CAGR of 12.4% v/s 11.3% in 2W over FY16-19E), as it continues to add new customers and gain share of the customers' wallet.

**Exhibit 14: Domestic business break-up (%; category-wise)**




Source: MOSL, Company

**Exhibit 15: Increasing market share despite Bajaj's muted volumes**

| (INR b) | FY14 | FY15 | FY16 |
|---|---|---|---|
| Aluminum casting and alloy wheels | 99 | 119 | 111 |
| ENDU aluminum casting and alloy wheels | 15.3 | 17.2 | 17.2 |
| Market Share (%) | 15.5 | 14.5 | 15.5 |
| Braking Systems | 18 | 20 | 18 |
| ENDU braking systems | 1.8 | 2.3 | 2.4 |
| Market Share (%) | 10.3 | 11.7 | 13.5 |
| Shock Absorbers & Front forks | 37 | 41 | 37 |
| ENDU Shock Absorbers & Front forks | 10.0 | 11.2 | 12.2 |
| Market Share (%) | 26.9 | 27.3 | 33.0 |
| Transmissions | 19 | 22 | 20 |
| ENDU transmissions | 2.6 | 2.6 | 2.9 |
| Market Share (%) | 13.5 | 11.6 | 14.3 |

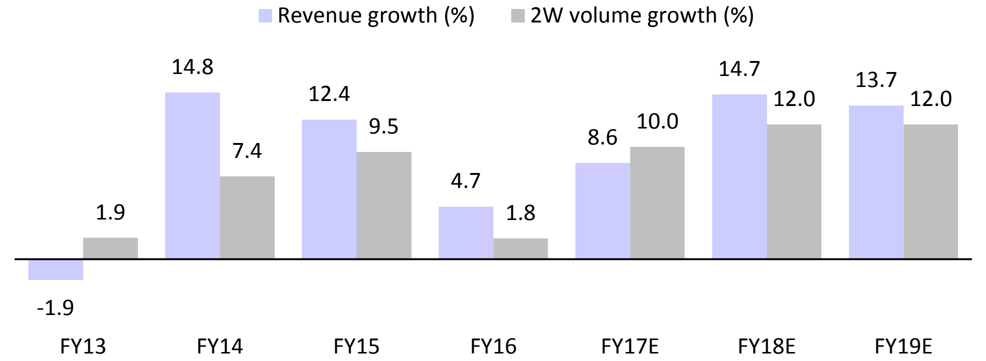
Source: MOSL, Company

**Exhibit 16: India business outgrowing 2W+3W production growth**

| | FY15 | FY16 |
|---|---|---|
| ENDU's revenue growth in India (INR m) | 34,025 | 35,595 |
| YoY Growth (%) | 12.7 | 4.6 |
| 2W+3W production (units) | 19,448,991 | 19,763,736 |
| YoY Growth (%) | 9.8 | 1.6 |

Source: MOSL, Company

Exhibit 17: Growth in 2W segment to aid ENDU's domestic revenue growth

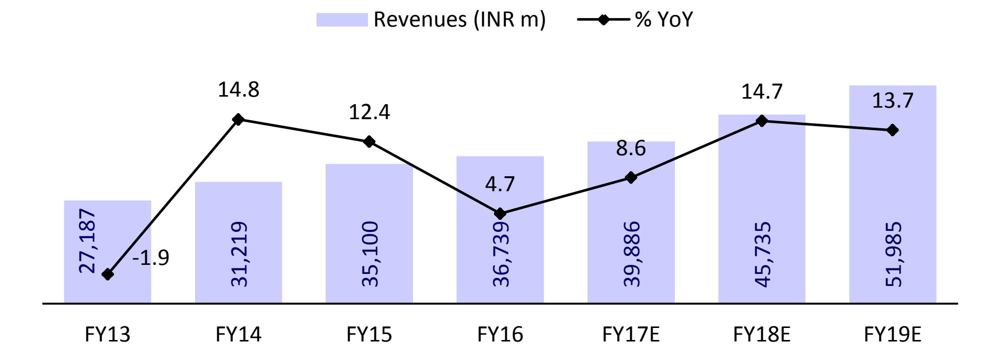



Source: MOSL, Company

## Strong business traction reflecting in financial performance

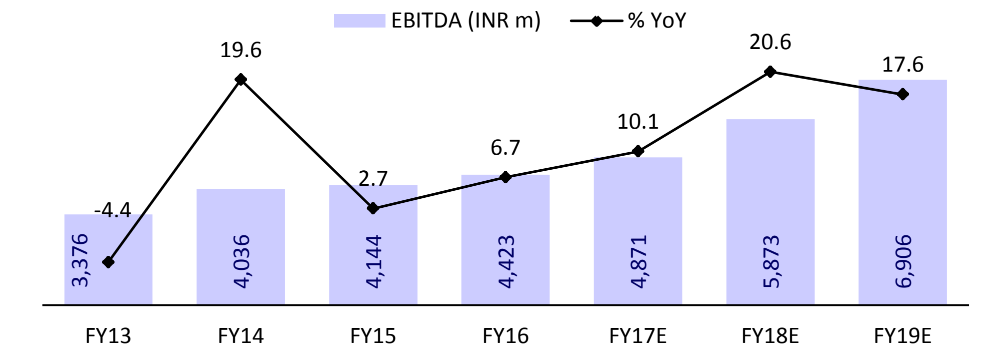
- We expect ENDU's India business to record steady revenue CAGR of ~12% over FY16-19, on revival in 2W industry growth after a dull growth phase in the last four years.
- EBITDA margin is likely to expand 130bp over FY16-19 to 13.3%, as product mix shifts towards proprietary systems and capacity utilization from the Pantnagar plant improves as Bajaj's volumes recover and excise duty anomalies end.
- Consequently, we expect PAT to grow at a CAGR of ~21% over FY16-19.

Exhibit 18: Revenue to grow at a CAGR of ~12% over FY16-19



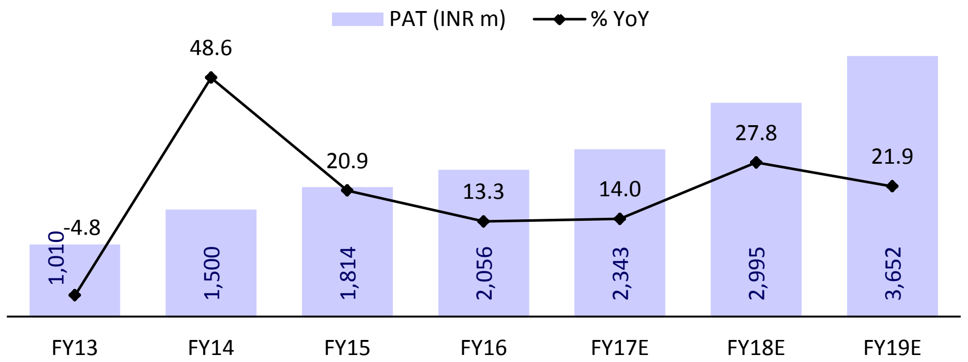

Source: MOSL, Company

Exhibit 19: EBITDA growth accelerated by improving margins




Source: MOSL, Company

**Exhibit 20: Expect India business PAT to grow at a CAGR of 21% over FY16-19**




Source: MOSL, Company

## Customer concentration risk reducing sharply due to increasing business traction among new customers

- Bajaj still remains ENDU's major customer, by far. However, given the weakness witnessed in Bajaj's volumes over the past four years and stronger growth recorded by other players, its share in the company's overall business has declined to ~40% (v/s 51.5% in FY10).
- As the manufacturing plants of HMSI and Hero in Gujarat hit peak volumes, Bajaj's contribution to ENDU's overall business is expected to decline further.
- Moreover, with the addition of marquee customers in the European business, Bajaj's contribution to ENDU's consolidated revenue is also expected to decline further.
- Increase in contribution from Getrag (~50% of exports), from ~INR750m to ~INR1.8b over the next three years would help reduce client concentration. Also, commencement of exports to South-East Asia at the behest of one of the top-3 domestic customers would help diversify revenue and help it to grow faster than the industry.

**Exhibit 21: Bajaj's share in ENDU's business declining over past three years (%)**

| | FY14 | FY15 | FY16 |
|---|---|---|---|
| Bajaj Auto | 48.4 | 44.0 | 41.4 |
| FCA Italy S.p.A | 14.1 | 14.5 | 15.5 |
| Royal Enfield | 3.3 | 4.5 | 6.0 |
| Next 5 largest customers | 18.4 | 19.3 | 19.5 |
| Remaining customers | 15.9 | 17.7 | 17.7 |

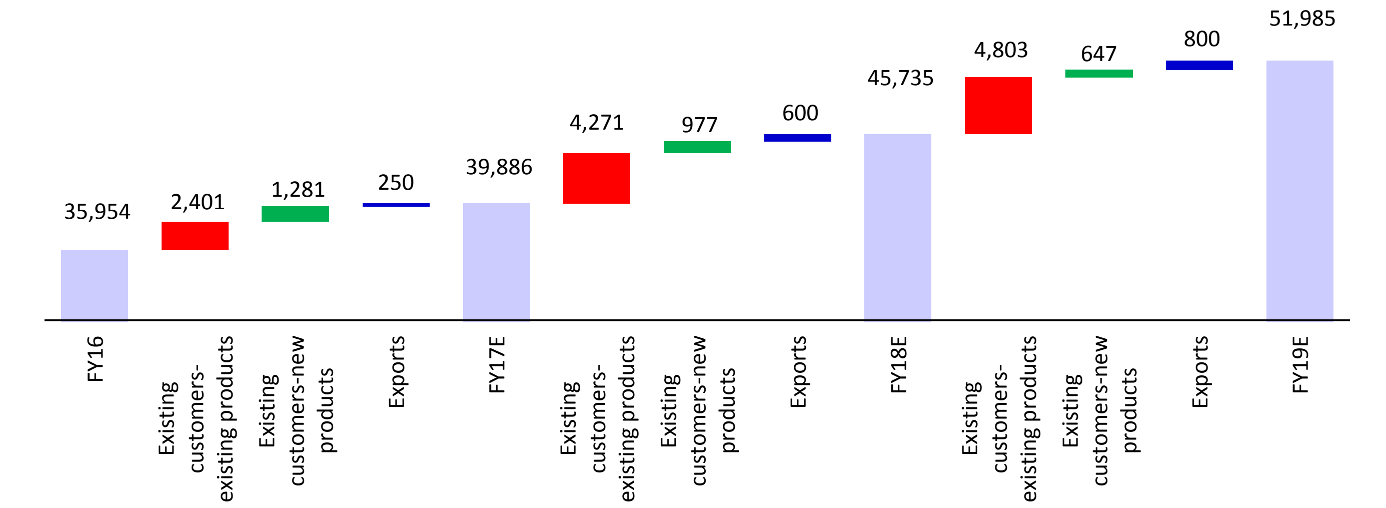
Source: MOSL, Company

**Strong presence among 2W OEMs – yet, significant white spaces to grow**

| | Bajaj Auto | Royal Enfield | Yamaha | Honda | Hero | Suzuki | H-D |
|---|---|---|---|---|---|---|---|
| **Aluminum Casting and Machining** | | | | | | | |
| Cylinder Heads | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Crown handles | ✗ | ✗ | ✓ | ✗ | ✗ | ✗ | ✗ |
| Aluminum alloy wheels | ✓ | | ✓ | ✗ | ✗ | ✓ | ✗ |
| **Suspension** | | | | | | | |
| Shock Absorbers | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Front Fork | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| **Transmission** | | | | | | | |
| Clutch Assemblies | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| CVTs | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Friction plates | ✓ | ✓ | ✗ | ✗ | ✓ | ✗ | ✗ |
| **Brakng** | | | | | | | |
| Hydraulic disc brakes assemblies | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Rotary brake discs | ✓ | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ |

Source: MOSL, Company

**Exhibit 22: Estimated break-up of domestic revenue increase (INR m)**




Source: MOSL, Company

# Profitable growth in European business

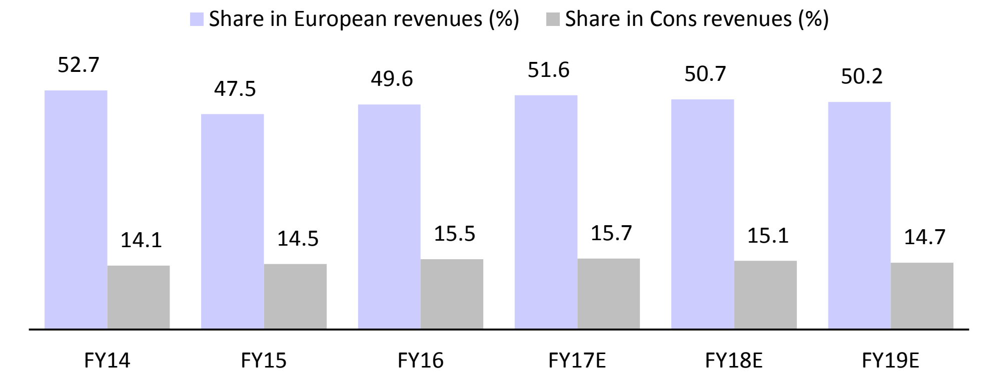
**Increasing clients, healthy margins, and improving RoCE**

- **ENDU's Europe business has grown at a rapid pace over the past 3-4 years, aided by organic growth as well as acquisitions.**
- **It has incurred major capital expenditure (including towards a new machining plant) to drive business growth with its key customers in Europe.**
- **ENDU's strategy in Europe is focused on growing its share of value-added products by increasing full machining of castings and sub-assemblies and adding high-value products.**
- **Margins in the Europe business are likely to gradually inch upwards, driven by increasing capacity utilization and further rationalization of content outsourcing as part of the company's overall cost control initiatives.**

## Strong relationship with FCA Group

- ENDU has a strong relationship with the FCA Group, which remains its second largest customer.
- It supplies components used in the engines of a variety of brands belonging to FCA Italy S.p.A., such as Jeep, Chrysler, Alfa Romeo, Abarth, Fiat and Lancia.
- ENDU's revenues from FCA Italy S.p.A. have increased primarily due to the acquisition of Endurance FOA.
- Going forward, given the addition of a new machining plant in Germany, we expect a gradual decline in FCA's share in ENDU's Europe business.

**Exhibit 23: FCA to remain an important customer for ENDU's Europe business**




Source: MOSL, Company

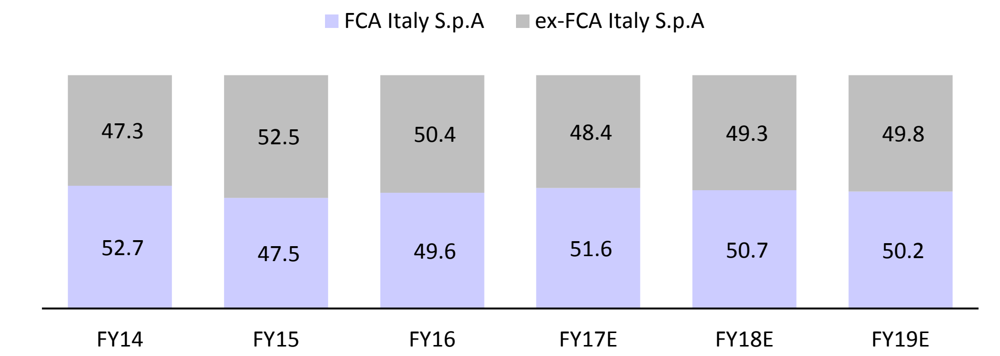
## Expanding client base with addition of Daimler and other 4W OEMs

- ENDU had entered Europe with the acquisition of Endurance Amann, its German subsidiary, in FY07 and the acquisition of Endurance Fondalmec, its Italian subsidiary, in FY08. In Europe, ENDU manufactures a wide range of raw and machined aluminum die-casting products, such as components for engines, transmissions and vehicle bodies. ENDU also manufactures components for aspirated and turbocharged engines, many of which are required to meet Euro VI emissions standards.
- In Europe, the number of ENDU's plants has increased from three in FY14 to seven as of 2QFY17. We expect the commissioning of the additional machining plant at Massenbachhausen, Germany to further aid revenue growth. The

increase in ENDU's supplies to Daimler and other customers in Germany will help reduce the company's dependence on Fiat. In FY15, there was a strong growth in ENDU's non-FCA revenues due to the commencement of new business from Daimler.

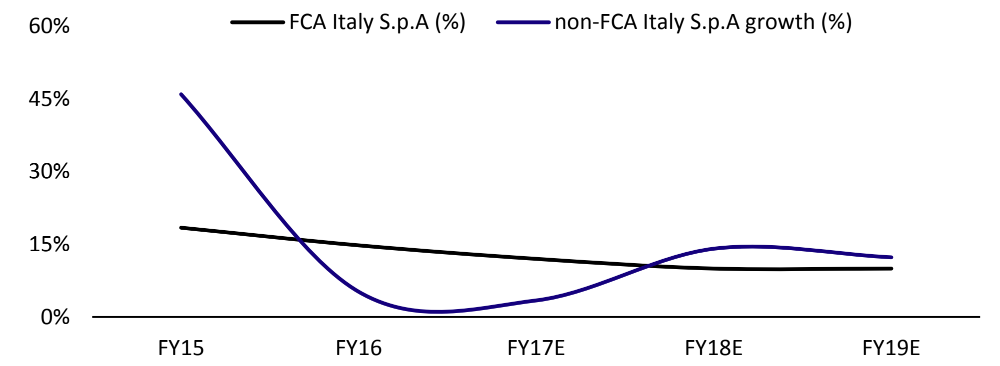
- In FY16/FY17, there was a mix shift towards FCA owing to a strong growth recorded by FCA Italy (~20% YTD CY16).

**Exhibit 24: Share of non-FCA revenues set to rise from FY18, as new plant ramps up**




Source: MOSL, Company

**Exhibit 25: Growth in Europe business to be boosted by new client additions**




Source: MOSL, Company

## High entry barriers due to increased capex requirement and product complexity

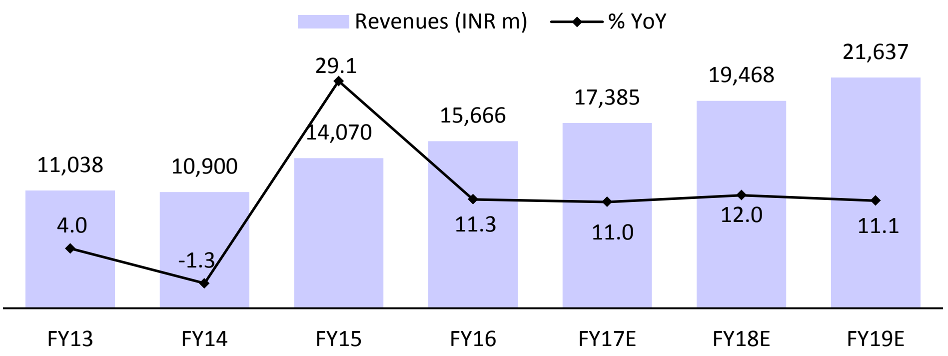
- ENDU's European business manufactures highly complex engine and transmission components, which requires significant capex and technology capability.
- Its strategy in Europe is focused on growing the share of value-added products by (a) increasing full machining of castings and sub-assemblies, (b) adding products such as structural parts, and large and complex engine and transmission castings, and (c) offering higher strength and elongation options by providing Silafont alloy and heat treatment for structural parts like front axle, cross members and shock towers.
- ENDU gained entry into Europe on the back of acquisitions, the major ones being (a) **Endurance FOA SpA**, which produces large and complex aluminum casting, and (b) the asset acquisition of **Grana's business division,** which is engaged in the production of engineering molded plastic components.

- To drive business growth with its key customers in Europe, ENDU has incurred major capital expenditure towards the purchase of new high-pressure die casting machines and CNC machines, and the construction of a new facility in Germany.
- There has been an improvement in the capital efficiency of the European business through diversification of product technology and material solutions, increasing machining automation for high-volume products, and introduction of higher-tonnage machines.

## Strong financial metrics

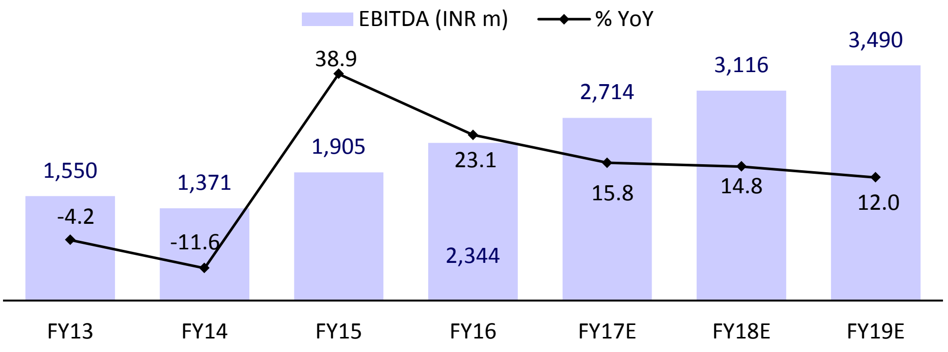
- ENDU's strategy in Europe has revolved around expanding, with particular focus on profitable growth, high margin products, and marquee customers. In Europe, the number of ENDU's plants has increased from three in FY14 to seven as of 2QFY17. With the commissioning of an additional machining plant in Germany in 4QFY17, its revenue growth in Europe is likely to step on the fast track.
- We expect ENDU's European subsidiaries to record steady revenue CAGR of 11.4% over FY16-19 on the back of increased business from non-FCA customers such as Daimler and VW group. The commencement of its new machining plant at Massenbachhausen, Germany in 4QFY17 is also likely to significantly boost the company's revenue.
- Margins in the Europe business are likely to remain high, driven by focus on profitable orders and continued rationalization of content outsourcing as part of the company's overall cost control initiatives.
- Any further increase in machining mix from the ~90% levels is also expected to aid the company's margin improvement.

**Exhibit 26: Revenue CAGR of ~12% over FY16-19E**



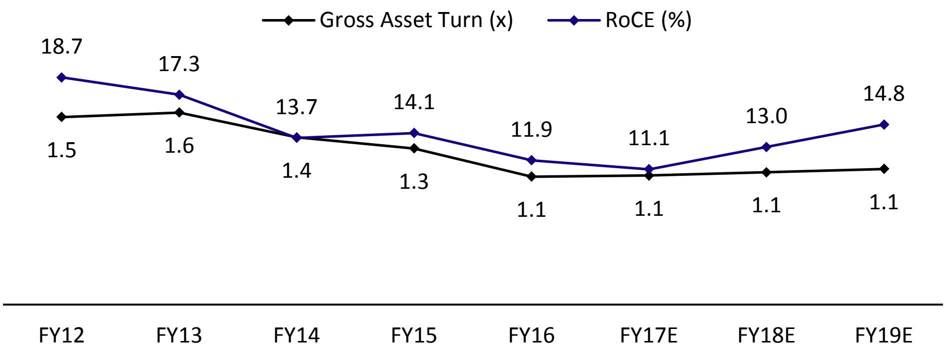

Source: MOSL, Company

**Exhibit 27: EBITDA CAGR of ~14% over FY16-19E to be led by 110bp margin expansion**




Source: MOSL, Company

**Exhibit 28: Asset turns inch higher, as capex intensity tapers, leading to improved RoCE**



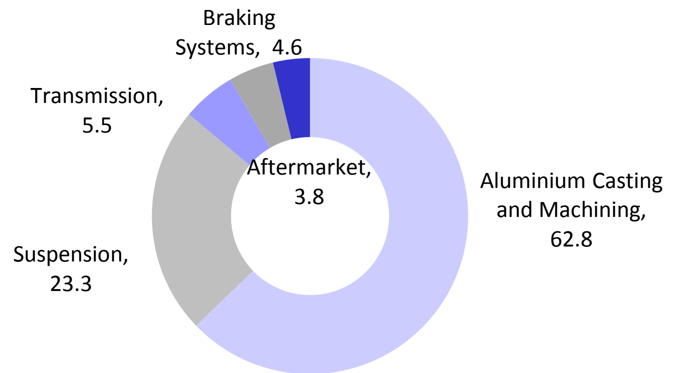

Source: MOSL, Company

## Large diversified business with expanding customer base

**Well-diversified business model + large segmental market share = Strong auto components supplier**


- **ENDU is a strong auto components supplier with significantly diversified revenue streams. Its business is driven mainly by the aluminum casting and machining segment, which contributes ~60% of its overall sales.**
- **Apart from being a major player in the aluminum casting segment in India, ENDU has also managed to enter and gain significant market share in other segments such as suspension products, and transmission and braking systems on the back of its technology partnerships and strong customer relationships.**
- **The European business manufactures a wide range of raw and machined aluminum die-casting products such as components for engines, transmissions and vehicle bodies, and supplies the products mainly to the FCA Group, Daimler and a few other OEMs.**
- **ENDU's focus on diversifying and expanding its customer base is reflected in the reduction in its client concentration, with Bajaj now contributing just ~42% of the company's revenue (down from 95% in 2006).**

**Exhibit 29: Revenue break-up (consolidated; %)**



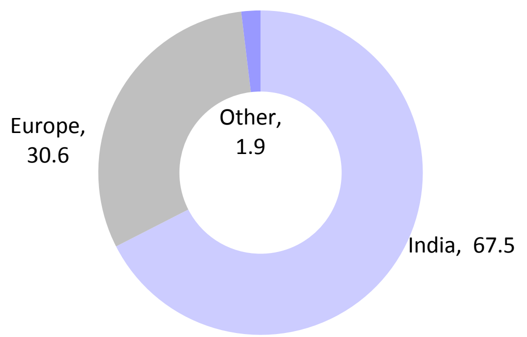

Source: MOSL, Company

**Exhibit 30: Share of customers in revenues**

| Customer-wise | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E |
|---|---|---|---|---|---|---|
| Bajaj Auto | 20,237 | 21,238 | 21,396 | 21,491 | 23,898 | 27,039 |
| % YoY | | 4.9 | 0.7 | 0.4 | 11.2 | 13.1 |
| % of revenues | 48.4 | 44.0 | 41.4 | 37.5 | 36.6 | 36.6 |
| FCA Italy S.p.A | 5,895 | 6,981 | 8,014 | 8,975 | 9,873 | 10,860 |
| % YoY | | 18.4 | 14.8 | 12.0 | 10.0 | 10.0 |
| % of revenues | 14.1 | 14.5 | 15.5 | 15.7 | 15.1 | 14.7 |
| Royal Enfield | 1,376 | 2,183 | 3,119 | 4,386 | 5,483 | 6,316 |
| % YoY | | 58.6 | 42.9 | 40.6 | 25.0 | 15.2 |
| % of revenues | 3.3 | 4.5 | 6.0 | 7.7 | 8.4 | 8.6 |
| Next 5 largest customers (incl HMSI) | 7,689 | 9,330 | 10,067 | 12,080 | 15,100 | 18,120 |
| % YoY | | 21.3 | 7.9 | 20.0 | 25.0 | 20.0 |
| % of revenues | 18.4 | 19.3 | 19.5 | 21.1 | 23.1 | 24.6 |
| Remaining customers | 6,658 | 8,573 | 9,135 | 10,362 | 10,971 | 11,456 |
| % YoY | | 28.8 | 6.6 | 13.4 | 5.9 | 4.4 |
| % of revenues | 15.9 | 17.7 | 17.7 | 18.1 | 16.8 | 15.5 |
| **Total** | **41,854** | **48,305** | **51,730** | **57,295** | **65,325** | **73,791** |
| **% YoY** | | **15.4** | **7.1** | **10.8** | **14.0** | **13.0** |

Source: MOSL, Company

**Exhibit 31: Geography-wise revenue share (%)**

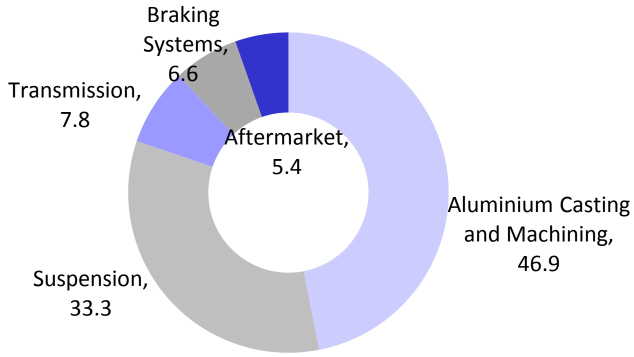



Source: MOSL, Company

## Diverse businesses in India…

- ENDU's domestic business is led by the aluminum casting and machining segment, which contributes ~47% of its domestic revenue.
- In India, ENDU manufactures a diverse range of automotive components for the two-wheeler and three-wheeler segments. The company's major products are:
  - Raw and machined aluminum castings, such as high-pressure, low-pressure and aluminum alloy wheels for motorcycles.
  - Suspension system products such as shock absorbers for scooters, motorcycles and three-wheelers, front forks for motorcycles and scooters, and hydraulic dampers for quadricycles.
  - Transmission system products such as clutch assemblies, cork and paper-based friction plates for motorcycles and three-wheelers, and continuous variable transmission assemblies ("CVTs") for scooters.
  - Braking systems such as hydraulic disc brake assemblies, including calipers, master cylinders and rotary disc brakes for motorcycles, and hydraulic drum brake assemblies and tandem master cylinder assemblies for three-wheelers.

**Exhibit 32: Revenue break-up (standalone; %)**




Source: MOSL, Company

**Exhibit 33: Dominant player in the 2W auto components segment**

| Revenues from the segment | (INR m) |
|---|---|
| Castings | 17,235 |
| Braking systems | 12,224 |
| Suspension | 2,859 |
| Transmission | 2,433 |

Source: MOSL, Company

## ...with strong market share across segments

- Despite being a major player in the aluminum casting segment (declining trend in share of business over the past decade from ~80% in FY06), ENDU has gained significant market share in other categories such as suspension products, and transmission and braking systems (collectively “proprietary systems”), on the back of its technology partnerships and strong customer relationships.
- The company enjoys a market share of 14-33% across categories, with the highest market share of ~33% in suspension systems.

**Exhibit 34: Dominant player in 2W auto components segment**

| Market Share | (%) |
|---|---|
| Castings & Alloy Wheels | 15.6 |
| Braking systems | 13.5 |
| Suspension | 33.0 |
| Transmission | 14.1 |

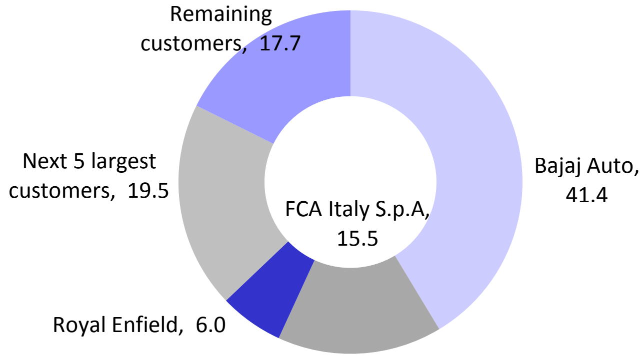
Source: MOSL, Company

## Close customer relationships with a variety of OEMs

- ENDU’s largest customers in India are Bajaj Auto, Royal Enfield, Honda and Yamaha. It has had a long-standing relationship with Bajaj, which is by far, its largest customer.
- ENDU’s strong association with Bajaj is not only due to their long history of working together in product development, leading to strong inter-dependence, but also on account of the company’s high quality, cost and delivery standards.
- Apart from these customers, ENDU also supplies to various other OEMs in India, such as Hero, Mahindra, Suzuki, H-D Motor Company India, and Fiat India.
- In Europe, ENDU’s largest customer is FCA Italy. It also supplies to Daimler as well as to other reputable four-wheeler OEMs operating from Europe.

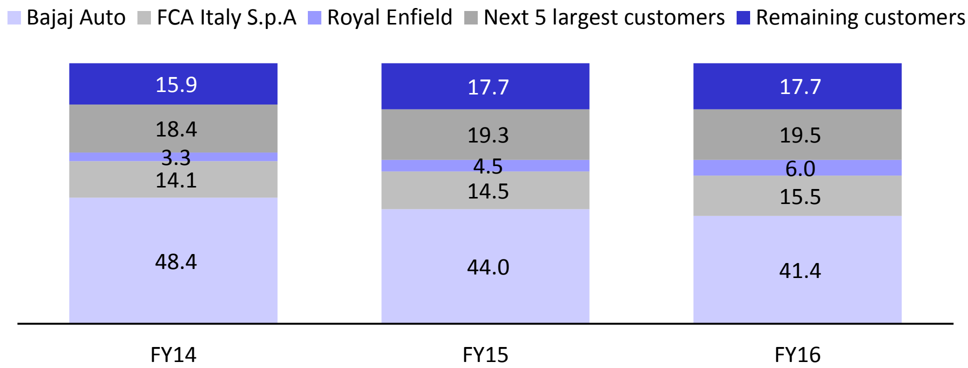
- ENDU's focus on diversifying and expanding its customer base is reflected in the reduction in its client concentration, with Bajaj now contributing just ~42% of its total revenue (down from 95% in 2006).

**Exhibit 35: Revenue share (client-wise; %)**




Source: MOSL, Company

**Exhibit 36: OEM mix shifting away from Bajaj Auto (%)**

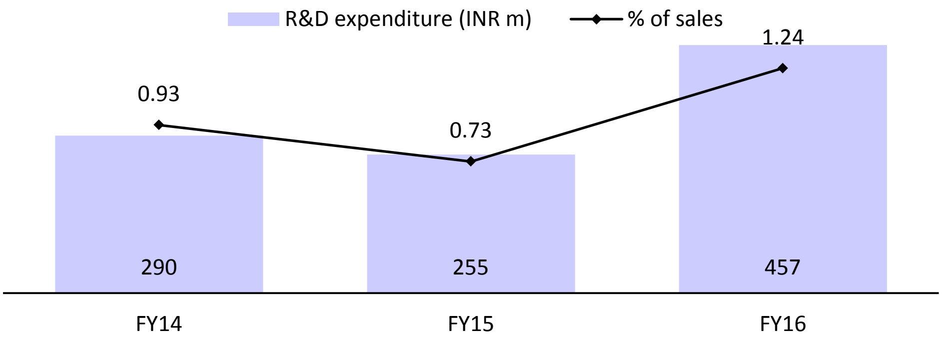



Source: MOSL, Company

## Strong in-house R&D capabilities and technology alliances

- ENDU has diversified into different product segments mainly due to its R&D and technological capabilities. It has 167 R&D engineers, designers, technicians and support staff in India, as well is at its overseas facilities.
- It has acquired and developed strong R&D capabilities, including product design, reverse engineering, product simulation, prototyping and testing. ENDU's technology partners include WP Performance Systems GmbH, Adler SpA, a leading global brake and a suspension company, and a European brakes technology provider.
- ENDU has also been focusing on new technologies such as combined braking systems and anti-lock braking systems to comply with future Indian regulatory requirements.
- Recently, ENDU acquired ~26 acres of land in Aurangabad to develop an automotive proving ground (test track), which is expected to become operational by the end of 2018. It is also setting up a dedicated technology center in Italy for foundry, machining and assembly-related process technologies to develop structural aluminum castings for passenger cars. This technology center will become operational from 4QFY17.

**Exhibit 37: R&D expenses (standalone) increasing gradually**




Source: MOSL, Company

- ENDU's technology tie-ups have not only ensured its entry and sustenance in these product segments, but have also enabled the company to remain technologically competitive in the market.
- **WP Performance** has agreed to provide ENDU on an exclusive basis the required know-how and technology for manufacturing a new series of motorcycle suspension components in consideration for a license fee. The terms of the agreement allow ENDU to manufacture the suspension components in India, and market and sell them to OEMs and replacement markets worldwide, except to WP Performance's customers.
- **Adler SpA** will provide ENDU with technical support on an exclusive basis in India for developing and manufacturing transmission products related to two-wheelers and three-wheelers for sale to markets in India and worldwide in consideration for a technical services fee.
- **A leading global brake and suspension company** has agreed to provide ENDU with technical assistance and licensing arrangements for manufacturing braking systems and parts for use in LCVs and four-wheeler passenger vehicles in India, and sell the products in any other country where new vehicles manufactured in India are being sold and serviced.
- ENDU has been granted exclusive rights to manufacture combined braking systems in India and a non-exclusive right to sell the combined braking systems in all countries by a **European braking technology provider**.

**Exhibit 38: Technology tie-ups to boost competitiveness**

| Technology Partner | Area of tie-up | Year of tie-up | Agreement valid till |
|---|---|---|---|
| WP Performance | Suspension components | 2015 | 2025 |
| Adler SpA | Transmission products | 2013 | 2018 |
| Leading global brake and suspension company | Braking systems | 2012 | 2017 |
| European braking technology provider | Combined braking systems | 2015 | 2020 |

Source: MOSL, Company

## Proven management lends confidence to future business trajectory

- Over the past decade, ENDU's management has been able to successfully engineer the company's transition from a largely single customer player with high concentration of business coming from the casting business to a multi-product, multi-customer business enterprise.
- ENDU's investments in R&D and technology partnerships has helped it develop products for other business segments, such as suspension, transmission systems and braking systems. As a result, the share of castings in the company's total revenues has declined, while that of the other components has increased.
- ENDU began its journey as a supplier to Bajaj Auto (by virtue of family ties between the companies' promoters). ENDU supplies all the products in its portfolio to Bajaj, whose share in its business has always remained high.
- However, adding new customers has been the key growth driver for ENDU and a feat few auto component suppliers in India have been able to accomplish.
- During the global financial crisis of 2007-09, the European automotive industry was adversely impacted by declining sales, overcapacity, intensifying competition, high fixed cost structures, and significant employee pension and health care obligations. ENDU's management has remained focused primarily on generating cash flow instead of only improving operating margin. The need for leaner operations and focus on increasing capital efficiency has remained the cornerstone of the overseas strategy of ENDU's management.

**Exhibit 39: Journey over the past decade - a snapshot**

| (INR m) | FY06 | FY16 | CAGR FY06-16 |
|---|---|---|---|
| Sales | 5,009 | 52,406 | 26.5 |
| EBITDA | 688 | 6,766 | 25.7 |
| EBITDA Margin (%) | 13.7 | 12.9 | |
| PAT | 336 | 2,912 | 24.1 |
| Gross Block | 4,027 | 35,138 | 24.2 |
| Net Worth | 1,102 | 14,556 | 29.4 |
| Debt | 3,150 | 8,295 | 10.2 |
| Debt/Equity (x) | 2.9 | 0.6 | |
| Revenue breakup | | | |
| India | 5,083 | 35,595 | 21.5 |
| Europe | 41 | 16,145 | 81.6 |
| **Share of BAL in revenues (%)** | **95.1** | **41.4** | |
| **Share of castings in revenues (%)*** | **73.2** | **62.8** | |

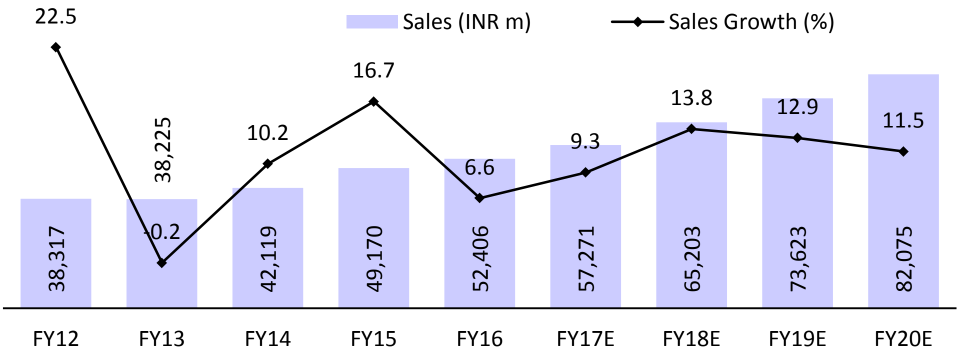
Source: MOSL, Company| *share of castings as per FY08 instead of FY06

# Expect strong improvement in consolidated financials

**Drivers: Robust topline growth, margin expansion**

- **The recovery in growth of the 2W industry and increase in wallet share of customers is expected to aid ENDU's revenue growth in India. Moreover, the addition of a new machining plant at Germany and commencement of supplies to other OEMs is likely to drive the company's growth in Europe.**
- **We expect ENDU to record consolidated revenue CAGR of ~12% over FY16-19, led by a ~12% CAGR in both India and Europe businesses.**
- **In FY16, ENDU recorded muted growth in casting revenue due to a decline of 15-20% in aluminum and steel prices. With prices now normalizing, we have factored for the same and build some additional revenue growth in 2H due to higher raw material prices.**

**Exhibit 40: Consolidated revenue CAGR of ~12% over FY16-19E**




Source: MOSL, Company

**Exhibit 41: Broad-based growth across customers**

| Customer-wise (INR m) | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E |
|---|---|---|---|---|---|---|
| Bajaj Auto | 20,237 | 21,238 | 21,396 | 21,491 | 23,898 | 27,039 |
| % YoY | | 4.9 | 0.7 | 0.4 | 11.2 | 13.1 |
| FCA Italy S.p.A | 5,895 | 6,981 | 8,014 | 8,975 | 9,873 | 10,860 |
| % YoY | | 18.4 | 14.8 | 12.0 | 10.0 | 10.0 |
| Royal Enfield | 1,376 | 2,183 | 3,119 | 4,386 | 5,483 | 6,316 |
| % YoY | | 58.6 | 42.9 | 40.6 | 25.0 | 15.2 |
| Next 5 largest customers (incl. HMSI) | 7,689 | 9,330 | 10,067 | 12,080 | 15,100 | 18,120 |
| % YoY | | 21.3 | 7.9 | 20.0 | 25.0 | 20.0 |
| Remaining customers | 6,658 | 8,573 | 9,135 | 10,362 | 10,971 | 11,456 |
| % YoY | | 28.8 | 6.6 | 13.4 | 5.9 | 4.4 |
| **Total** | **41,854** | **48,305** | **51,730** | **57,295** | **65,325** | **73,791** |
| **% YoY** | | **15.4** | **7.1** | **10.8** | **14.0** | **13.0** |

Source: MOSL, Company

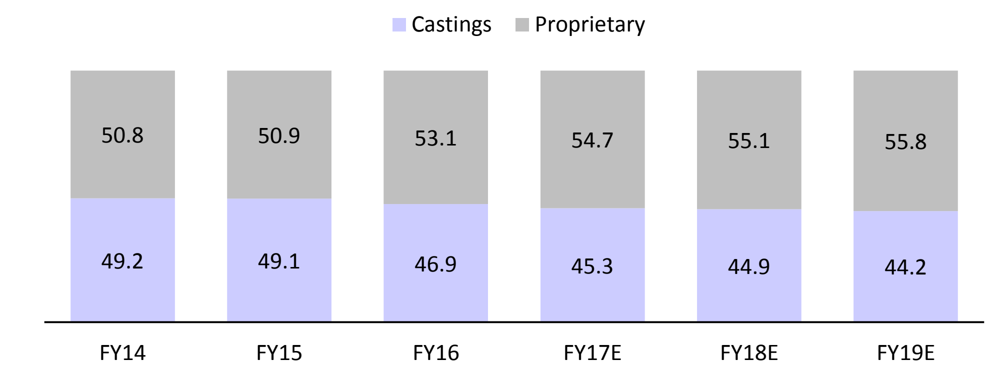
## Margin drivers in place for both businesses

- We expect ENDU's margins to improve due to an increase in its capacity utilization, as capex intensity tapers off and there is a gradual increase in the share of the proprietary business.
- We expect margins of the India business to improve by ~130bp from FY16 to FY19 (on the back of increasing capacity utilization and higher share of the proprietary business). Margins of the Europe business should improve by

~110bp from 15% to 16.1% over FY16-19 (led by a shift towards bigger and more complex castings).

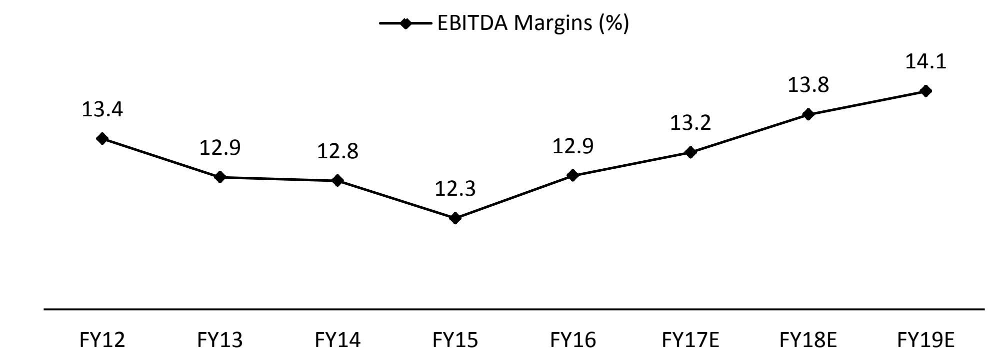
- With a topline growth of 12% and margin expansion of ~120bp, we expect a CAGR of 20% in consolidated PAT over FY16-19.

**Exhibit 42: Steady increase in proprietary business share to boost standalone margins (%)**



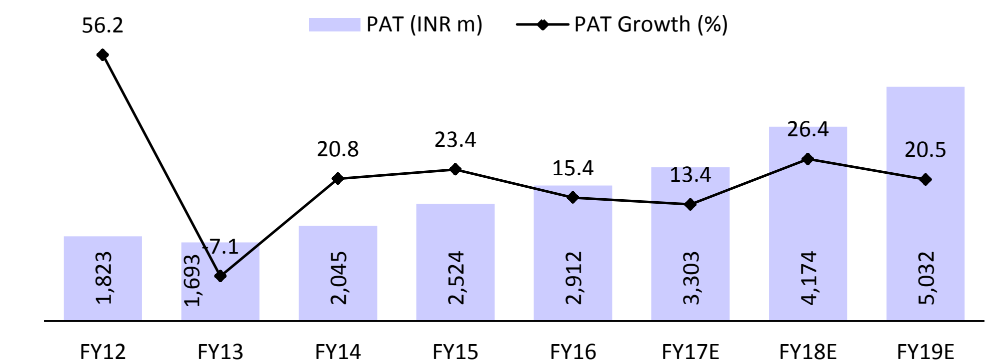

Source: MOSL, Company

**Exhibit 43: Margins to inch upwards, with improving utilization across both businesses**




Source: MOSL, Company

**Exhibit 44: PAT CAGR of ~20% over FY16-19E**

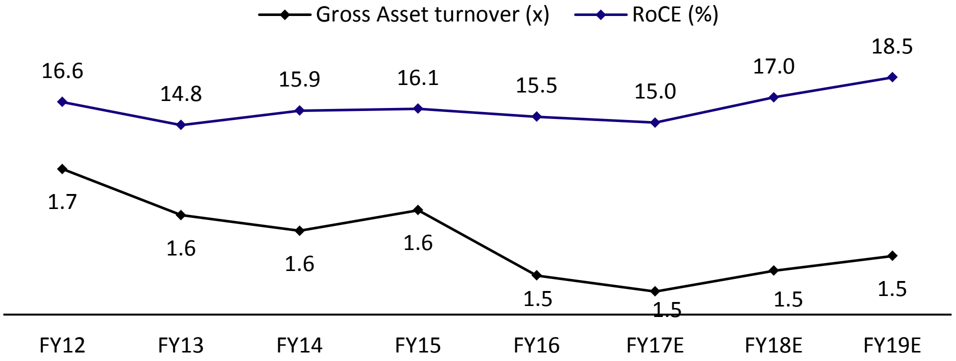



Source: MOSL, Company

## Reducing capex intensity, improving margins/asset turns to boost return ratios

- ENDU's capex intensity is likely to taper off, as the bulk of its capex is front-loaded. The company's India business is operating at a capacity utilization of ~70%, while the Europe business has ~95% capacity utilization.
- The capex for the new European plant is almost complete, with the new machining plant likely to be commissioned in 4QFY17.
- We expect a significant improvement in ENDU's return ratios (up ~300bp to ~18%), as its domestic business mix shifts in favor of the proprietary business, and its European business benefits from increased scale of operations and slight improvement in margins and asset turns.

**Exhibit 45: Asset turns rise as capex intensity tapers off**

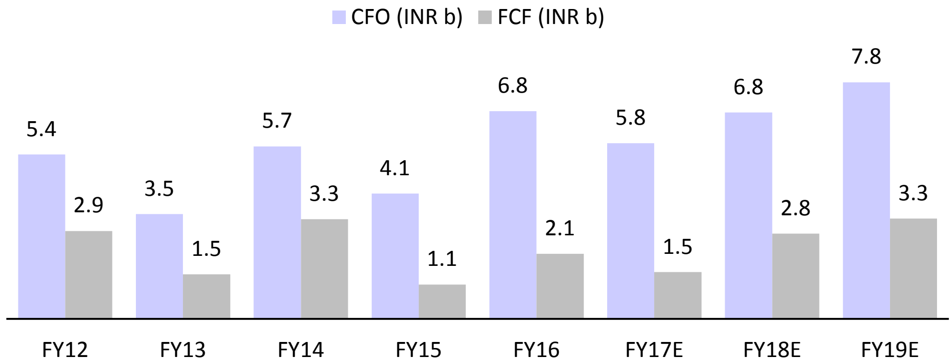



Source: MOSL, Company

## Strong free cash flow generation with tapering of capex intensity

- We expect ENDU to generate a CFO of INR20.4b over the next three years (FY17-19), aided mainly by its strong working capital management, despite increasing scale of operations.
- Given its reducing capex intensity, ENDU's FCF generation is likely to remain strong for the next two years. We expect the company to record a cumulative consolidated FCF of INR7.7b over FY17-19.
- ENDU's net debt stands at INR6.2b. Given the strong FCF generation expected over the period FY17-19, we expect the company to almost become net cash by FY19E.

**Exhibit 46: Strong FCF generation ahead as major capex already over**




Source: MOSL, Company

## Valuations reasonable; initiate with Buy

**Diversified, large-sized auto ancillary company at reasonable valuations**

- **ENDU is one of the few auto ancillary companies in India to boast of a truly diversified revenue base, both in terms of product lines as well as customer base, but still offers consistently respectable RoE.**
- **At the helm is a proven management, as evident in the sustained profitable growth while entering new segments and significant market share gains.**
- **We believe that the strength in ENDU's business franchisee and its strong management will help the stock continue commanding premium valuation multiples in comparison to most domestic auto ancillary companies.**
- **In the domestic auto ancillary space, there are only a handful of high-quality, large-scaled, multi-product auto component suppliers. Considering ENDU's size and strong market share in its operating segments, we believe that the stock should command a premium to its domestic peers.**

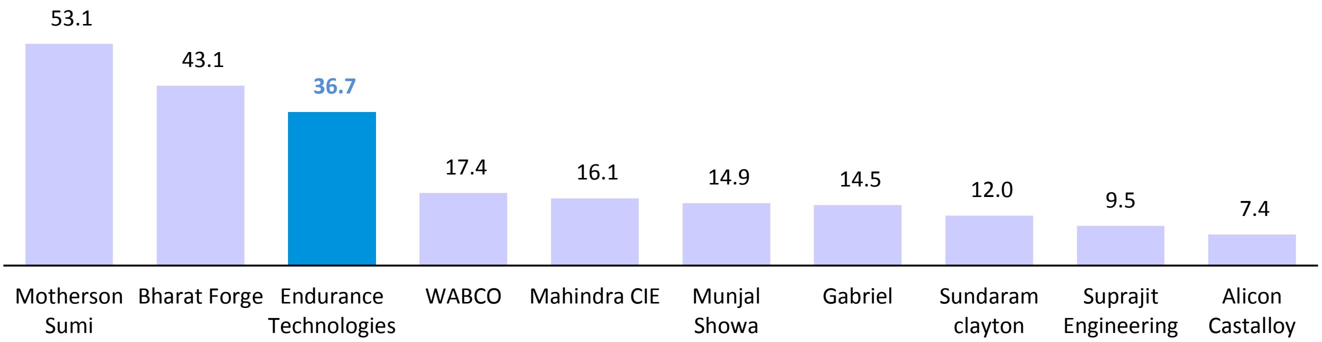
### Strong financial metrics clearly stand out vis-à-vis peers

- We expect ENDU to record consolidated revenue CAGR of 12% over FY16-19, led by growth in both its India and Europe businesses. The company's consolidated margins are likely to improve by ~120bp over FY16-19.
- Given the estimated EPS CAGR of ~20% over FY16-19, we believe that ENDU's growth profile clearly stands out from most of the other auto ancillary companies in India.
- With a cumulative FCF generation of INR7.7b over FY17-19E, we expect the company to become net cash by FY19.
- ENDU's return ratios are likely to inch upwards, as the increased capacity utilization leads to higher asset turns. We expect the company's post-tax RoCE to increase to 18.5% in FY19 from the current 15.5%.

### Initiate coverage with Buy rating

- ENDU offers a strong management, diverse revenue profile, improving technological content, increasing wallet share of customers, and financial discipline.
- All this is clearly reflected in the company's strong growth prospects **(revenue/EPS CAGR of ~12x%/~20% over FY16-19E) and robust return ratios (RoE of ~22% in FY19E)**.

**Exhibit 47: Domestic peers - Sales (ex-global subsidiaries) (INR b)**




Source: MOSL, Company| Revenues from India business alone

- The expected demand revival in the auto industry and anticipated improvement in margins and return ratios of ENDU's domestic peers led to a sharp re-rating of their valuation multiples over the past two years, with most players trading at a premium to their historical multiples.
- ENDU trades at 19x/15.8x FY18E/FY19E EPS, which is in line with average multiples of its peers. This coupled with EPS CAGR of 19% over FY16-18E, strong management and robust return ratios should drive a re-rating for the stock.
- We initiate coverage on ENDU with a Buy rating and a TP of INR715 (~20x FY19E EPS) in view of the company's strong growth potential, diverse revenue profile and robust return ratios over FY16-19E.
- Considering ENDU's earnings growth potential, management pedigree and stability in capital efficiencies, we value it at ~20% discount to our target valuations for peers like AMRJ and BHFC.

**Exhibit 48: Domestic peers**

| Domestic Peers | Mcap (INR b) | Sales (INR b) FY16 | OPM (%) FY16 | EPS CAGR FY16-18E | RoIC (%) FY16 | P/E - FY18E | EV/EBITDA - FY18E |
|---|---|---|---|---|---|---|---|
| **Endurance Technologies** | **79.5** | **57.3** | **12.9** | **19.7** | **16.0** | **19.0** | **9.3** |
| Gabriel | 15.4 | 14.5 | 8.9 | 13.9 | 19.8 | 15.8 | 8.8 |
| Munjal Showa | 7.6 | 14.9 | 7.2 | 12.0 | 13.8 | 9.9 | 4.7 |
| WABCO | 96.1 | 17.4 | 16.9 | 27.5 | 20.1 | 28.9 | 19.1 |
| Alicon Castalloy | 4.5 | 7.4 | 10.5 | 22.1 | 11.3 | 13.4 | 6.2 |
| Motherson Sumi | 450.8 | 383.9 | 10.01 | 27.9 | 18.9 | 20.5 | 9.1 |
| Bharat Forge | 227.1 | 75.5 | 18.9 | 12.0 | 10.3 | 26.7 | 14.9 |
| Mahindra CIE | 70.4 | 54.1 | 11.4 | 22.7 | - | 17.5 | 8.6 |
| Suprajit Engineering | 26.0 | 9.5 | 17.4 | 29.5 | 16.5 | 19.3 | 12.5 |
| Sundaram Clayton | 57.5 | 126.0 | 7.1 | n/A | 12.7 | n/A | n/A |

Source: MOSL, Company

**Exhibit 49: Global peers**

| Global Peers | Mcap (EUR m) | Sales (EUR m) FY16/CY16E | OPM (%) FY16/CY16E | EPS CAGR FY16-18E/CY16E-18E | RoIC (%) FY16/CY15 | P/E - FY18E/CY18E | EV/EBITDA - FY18E/CY18E |
|---|---|---|---|---|---|---|---|
| **Endurance Technologies** | **1,086** | **782** | **12.9** | **19.7** | **16.0** | **19.0** | **9.3** |
| Brembo Spa | 3,650 | 2,073 | 18.2 | 8.0 | 19.5 | 16.7 | 9.5 |
| CIE Automotive | 2,381 | 2,631 | 14.6 | 16.6 | 10.8 | 11.9 | 7.0 |
| Showa Corp | 493 | 1,950 | 6.6 | LP | 1.6 | 8.7 | 2.2 |
| Exedy Corp | 1,300 | 2,029 | 14.23 | 19.2 | 7.1 | 11.7 | 4.3 |
| F.C.C. Co Ltd. | 935 | 1,264 | 12.9 | 24.0 | 6.1 | 11.6 | 4.1 |
| Mando Corp | 1,900 | 4,538 | 9.2 | 16.7 | 7.3 | 10.8 | 6.3 |
| Aisin Sieki | 12,300 | 24,488 | 11.2 | 9.9 | 6.8 | 12.9 | 4.8 |
| Allison Transmission | 5,404 | 1,621 | 33.7 | 3.4 | 6.9 | 25.3 | 12.1 |
| Borg Warner | 8,119 | 8,273 | 16.6 | 16.8 | 12.0 | 11.2 | 6.8 |

Source: MOSL, Company

## Bull and Bear case

### Bull Case

- Better-than-expected recovery in 2W demand, especially for ENDU's key customer Bajaj, resulting in revenue CAGR of ~16% for India business over FY16-19E.
- Sustained volumes from FCA Italy SpA and increase in volumes due to ramp-up of new machining plant leading to revenue CAGR of 13.4% over FY16-19E.
- India business' EBITDA margin benefiting from increased utilization and higher share of proprietary products, coupled with Europe business' margins benefiting from increase in utilization, mix shift towards larger, complex castings, and further increase in machining mix for newer orders, resulting in consolidated EPS CAGR of 24.2% over FY16-19E.
- Higher market share, improved margins and better capital efficiencies driving the stock's re-rating.
- In a bull case, we would value ENDU at 24x FY19E EPS to arrive at a TP of INR951 (68% upside).

### Bear Case

- Weaker-than-expected growth in 2W volumes, especially for ENDU's key customer Bajaj (also impacted by weak exports), resulting in revenue CAGR of ~10% over FY16-19E.
- Decline in volumes from FCA Italy SpA after a strong CY16 and delay in ramp-up of new machining plant leading to revenue CAGR of 9% over FY16-19E.
- India business' EBITDA margin remaining sluggish at ~12.5% and Europe business' margins also remaining flat at 1HFY17 levels, leading to consolidated EPS CAGR of 10% over FY16-19E.
- Weak earnings growth, leading to de-rating of the stock.
- In a bear case, we would value ENDU at 18x FY19E EPS to arrive at a TP of INR496 (~12% downside).

**Exhibit 35: Scenario analysis suggests favorable risk-reward**

| | Base case | | | Bull case | | | Bear case | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY17E | FY18E | FY19E | FY17E | FY18E | FY19E | FY17E | FY18E | FY19E |
| **India** | 39,886 | 45,735 | 51,985 | 40,621 | 48,202 | 56,718 | 39,151 | 43,718 | 48,818 |
| Sales growth (%) | 8.6 | 14.7 | 13.7 | 10.6 | 18.7 | 17.7 | 6.6 | 11.7 | 11.7 |
| Margins (%) | 12.2 | 12.8 | 13.3 | 12.4 | 13.1 | 13.8 | 12.2 | 12.4 | 12.6 |
| Europe | 17,385 | 19,468 | 21,637 | 17,698 | 20,173 | 22,824 | 16,915 | 18,603 | 20,304 |
| Sales growth (%) | 11.0 | 12.0 | 11.1 | 13.0 | 14.0 | 13.1 | 8.0 | 10.0 | 9.1 |
| Margins (%) | 15.6 | 16.0 | 16.1 | 15.9 | 16.4 | 16.7 | 15.1 | 15.2 | 15.2 |
| Consolidated | 57,271 | 65,203 | 73,623 | 58,319 | 68,375 | 79,542 | 56,066 | 62,321 | 69,123 |
| Sales growth (%) | 9.3 | 13.8 | 12.9 | 11.3 | 17.2 | 16.3 | 7.0 | 11.2 | 10.9 |
| Margins (%) | 13.2 | 13.8 | 14.1 | 13.5 | 14.1 | 14.6 | 13.1 | 13.2 | 13.4 |
| **Consolidated PAT** | **3,303** | **4,174** | **5,032** | **3,515** | **4,473** | **5,573** | **3,145** | **3,489** | **3,877** |
| Growth (%) | 13.4 | 26.4 | 20.5 | 20.7 | 27.2 | 24.6 | 8.0 | 10.9 | 11.1 |
| **Consolidated EPS** | **23.5** | **29.7** | **35.8** | **25.0** | **31.8** | **39.6** | **22.4** | **24.8** | **27.6** |
| **ROE (%)** | **20.6** | **21.6** | **21.8** | **21.9** | **23.1** | **24.1** | **19.6** | **18.1** | **16.8** |
| P/E | | | 20 | | | 24 | | | 18 |
| TP (INR/shr) | | | 715 | | | 951 | | | 496 |
| Upside | | | 26.6 | | | 68.3 | | | -12.2 |

Source: Company, MOSL

# SWOT Analysis

## Strengths

- Well-diversified business model with high market share across segments for 2W/3W automotive components
- Consistent track record of organic and inorganic growth
- Strong customer relationships with various OEMs
- Growing and profitable European business with high entry barriers
- Strong financials metrics and robust growth prospects

## Weaknesses

- Domestic business highly dependent on Bajaj Auto's performance (~60% share in standalone revenues)
- Low share of business contribution from high margin after-market and export segments

## Opportunities

- Increasing diversification of customer base and segments
- Significant headroom for growth in India with capacity utilization at ~70%
- Mix shift towards more complicated and value-added products to aid margin improvement
- Entry in 4W segment in India (including CV segment)
- Opportunity to increase exports across product segments

## Threats

- Increase in competitive intensity, leading to pressure on pricing
- Loss of market share of deeply entrenched customers (viz. Bajaj, Eicher, etc.)
- Non-extension of technology tie-ups leading to end of technical assistance

# Financials and Valuations

| Consolidated - Income Statement | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17E** | **FY18E** | **FY19E** |
| **Total Income from Operations** | **38,317** | **38,225** | **42,119** | **49,170** | **52,406** | **57,271** | **65,203** | **73,623** |
| Change (%) | 22.5 | -0.2 | 10.2 | 16.7 | 6.6 | 9.3 | 13.8 | 12.9 |
| Raw Materials | 23,627 | 23,998 | 26,383 | 29,712 | 30,534 | 32,850 | 37,344 | 42,090 |
| Employees Cost | 2,731 | 2,964 | 3,340 | 4,206 | 4,785 | 5,433 | 6,062 | 6,703 |
| Other Expenses | 6,809 | 6,336 | 6,988 | 9,204 | 10,321 | 11,404 | 12,808 | 14,433 |
| **Total Expenditure** | **33,167** | **33,298** | **36,711** | **43,121** | **45,639** | **49,687** | **56,214** | **63,226** |
| % of Sales | 86.6 | 87.1 | 87.2 | 87.7 | 87.1 | 86.8 | 86.2 | 85.9 |
| **EBITDA** | **5,150** | **4,927** | **5,408** | **6,048** | **6,766** | **7,585** | **8,989** | **10,397** |
| Margin (%) | 13.4 | 12.9 | 12.8 | 12.3 | 12.9 | 13.2 | 13.8 | 14.1 |
| Depreciation | 1,869 | 1,873 | 2,078 | 2,269 | 2,506 | 2,930 | 3,215 | 3,538 |
| **EBIT** | **3,281** | **3,053** | **3,330** | **3,779** | **4,261** | **4,655** | **5,774** | **6,858** |
| Int. and Finance Charges | 955 | 929 | 810 | 510 | 464 | 386 | 283 | 217 |
| Other Income | 105 | 284 | 285 | 325 | 340 | 373 | 400 | 456 |
| **PBT bef. EO Exp.** | **2,431** | **2,408** | **2,805** | **3,594** | **4,136** | **4,642** | **5,891** | **7,097** |
| EO Items | 0 | -80 | -48 | 0 | 0 | 0 | 0 | 0 |
| **PBT after EO Exp.** | **2,431** | **2,329** | **2,757** | **3,594** | **4,136** | **4,642** | **5,891** | **7,097** |
| Total Tax | 602 | 632 | 704 | 1,055 | 1,213 | 1,339 | 1,717 | 2,065 |
| Tax Rate (%) | 24.7 | 27.2 | 25.6 | 29.3 | 29.3 | 28.8 | 29.1 | 29.1 |
| Minority Interest | 6 | 3 | 7 | 16 | 11 | 0 | 0 | 0 |
| **Reported PAT** | **1,823** | **1,693** | **2,045** | **2,524** | **2,912** | **3,303** | **4,174** | **5,032** |
| **Adjusted PAT** | **1,823** | **1,751** | **2,081** | **2,524** | **2,912** | **3,303** | **4,174** | **5,032** |
| Change (%) | 47.3 | -3.9 | 18.8 | 21.3 | 15.4 | 13.4 | 26.4 | 20.5 |
| Margin (%) | 4.8 | 4.6 | 4.9 | 5.1 | 5.6 | 5.8 | 6.4 | 6.8 |

| Consolidated - Balance Sheet | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17E** | **FY18E** | **FY19E** |
| Equity Share Capital | 198 | 193 | 193 | 176 | 176 | 1,407 | 1,407 | 1,407 |
| Preference Capital | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Reserves | 5,899 | 7,164 | 9,612 | 11,242 | 14,380 | 16,134 | 19,705 | 23,647 |
| **Net Worth** | **6,097** | **7,357** | **9,805** | **11,418** | **14,556** | **17,541** | **21,112** | **25,054** |
| Minority Interest | 12 | 15 | 114 | 107 | 0 | 0 | 0 | 0 |
| Total Loans | 9,830 | 9,556 | 7,056 | 7,774 | 8,295 | 7,295 | 5,595 | 4,195 |
| Deferred Tax Liabilities | 82 | 5 | -108 | -208 | -234 | -234 | -234 | -234 |
| **Capital Employed** | **16,022** | **16,932** | **16,867** | **19,091** | **22,617** | **24,602** | **26,474** | **29,015** |
| | | | | | | | | |
| Gross Block | 22,008 | 23,410 | 26,386 | 29,895 | 35,138 | 39,388 | 43,388 | 47,888 |
| Less: Accum. Deprn. | 11,210 | 12,766 | 15,053 | 16,476 | 19,136 | 22,066 | 25,281 | 28,819 |
| **Net Fixed Assets** | **10,798** | **10,645** | **11,333** | **13,419** | **16,002** | **17,322** | **18,108** | **19,069** |
| Goodwill on Consolidation | 1,150 | 1,168 | 1,379 | 1,108 | 1,448 | 1,448 | 1,448 | 1,448 |
| Capital WIP | 567 | 316 | 137 | 216 | 818 | 818 | 818 | 818 |
| **Total Investments** | **3** | **82** | **95** | **10** | **466** | **466** | **1,466** | **1,966** |
| | | | | | | | | |
| **Curr. Assets, Loans&Adv.** | **10,839** | **11,178** | **12,099** | **12,882** | **13,932** | **15,263** | **16,708** | **19,204** |
| Inventory | 2,228 | 2,247 | 2,651 | 3,858 | 4,067 | 4,428 | 5,009 | 5,634 |
| Account Receivables | 6,110 | 6,207 | 6,750 | 5,795 | 5,931 | 6,482 | 7,380 | 8,333 |
| Cash and Bank Balance | 1,466 | 1,502 | 1,194 | 936 | 1,674 | 1,884 | 1,508 | 2,063 |
| Loans and Advances | 1,034 | 1,222 | 1,503 | 2,293 | 2,259 | 2,469 | 2,811 | 3,174 |
| **Curr. Liability & Prov.** | **7,336** | **6,457** | **8,176** | **8,545** | **10,049** | **10,716** | **12,074** | **13,490** |
| Account Payables | 6,351 | 5,419 | 6,830 | 6,666 | 7,388 | 7,894 | 8,881 | 9,917 |
| Other Current Liabilities | 688 | 679 | 853 | 1,063 | 1,839 | 1,941 | 2,195 | 2,453 |
| Provisions | 298 | 359 | 493 | 816 | 822 | 880 | 998 | 1,120 |
| **Net Current Assets** | **3,503** | **4,722** | **3,923** | **4,338** | **3,883** | **4,547** | **4,634** | **5,714** |
| **Appl. of Funds** | **16,022** | **16,932** | **16,867** | **19,091** | **22,617** | **24,602** | **26,474** | **29,015** |

E: MOSL Estimates

# Financials and Valuations

| Ratios | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17E** | **FY18E** | **FY19E** |
| **Basic (INR)** | | | | | | | | |
| **EPS** | **13.0** | **12.4** | **14.8** | **17.9** | **20.7** | **23.5** | **29.7** | **35.8** |
| Cash EPS | 26.2 | 25.8 | 29.6 | 34.1 | 38.5 | 44.3 | 52.5 | 60.9 |
| BV/Share | 43.3 | 52.3 | 69.7 | 81.2 | 103.5 | 124.7 | 150.1 | 178.1 |
| DPS | 0.2 | 0.3 | 0.4 | 0.9 | 1.3 | 1.9 | 3.6 | 6.4 |
| Payout (%) | 2.1 | 2.3 | 3.3 | 5.9 | 7.3 | 9.6 | 14.4 | 21.7 |
| **Valuation (x)** | | | | | | | | |
| P/E | | | | 26.3 | 22.8 | 24.1 | 19.0 | 15.8 |
| Cash P/E | | | | 13.9 | 12.3 | 12.8 | 10.8 | 9.3 |
| P/BV | | | | 5.8 | 4.6 | 4.5 | 3.8 | 3.2 |
| EV/Sales | | | | 1.5 | 1.4 | 1.5 | 1.3 | 1.1 |
| EV/EBITDA | | | | 12.1 | 10.8 | 11.2 | 9.3 | 7.8 |
| Dividend Yield (%) | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 | 0.3 | 0.6 | 1.1 |
| FCF per share | 20.6 | 10.4 | 23.4 | 8.0 | 15.2 | 11.0 | 20.0 | 23.5 |
| **Return Ratios (%)** | | | | | | | | |
| RoE | 35.4 | 26.0 | 24.2 | 23.8 | 22.4 | 20.6 | 21.6 | 21.8 |
| RoCE | 16.6 | 14.8 | 15.9 | 16.1 | 15.5 | 15.0 | 17.0 | 18.5 |
| RoIC | 17.9 | 15.3 | 16.3 | 16.0 | 16.0 | 16.1 | 18.5 | 20.8 |
| **Working Capital Ratios** | | | | | | | | |
| Inventory (Days) | 21 | 21 | 23 | 29 | 28 | 28 | 28 | 28 |
| Debtor (Days) | 58 | 59 | 58 | 43 | 41 | 41 | 41 | 41 |
| Creditor (Days) | 60 | 52 | 59 | 49 | 51 | 50 | 50 | 49 |
| **Leverage Ratio (x)** | | | | | | | | |
| Current Ratio | 1.5 | 1.7 | 1.5 | 1.5 | 1.4 | 1.4 | 1.4 | 1.5 |
| Interest Cover Ratio | 3.4 | 3.3 | 4.1 | 7.4 | 9.2 | 12.6 | 20.9 | 32.4 |
| Net Debt/Equity | 1.4 | 1.1 | 0.6 | 0.6 | 0.4 | 0.3 | 0.1 | 0.0 |

| Consolidated - Cash Flow Statement | | | | | | | | (INR Million) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY12** | **FY13** | **FY14** | **FY15** | **FY16** | **FY17E** | **FY18E** | **FY19E** |
| OP/(Loss) before Tax | 2,431 | 2,329 | 2,805 | 3,594 | 4,136 | 4,642 | 5,891 | 7,097 |
| Depreciation | 1,869 | 1,873 | 2,078 | 2,269 | 2,506 | 2,930 | 3,215 | 3,538 |
| Interest & Finance Charges | 955 | 929 | 810 | 510 | 464 | 13 | -117 | -239 |
| Direct Taxes Paid | -559 | -676 | -795 | -1,088 | -1,050 | -1,339 | -1,717 | -2,065 |
| (Inc)/Dec in WC | 505 | -1,109 | 405 | -847 | 270 | -455 | -463 | -525 |
| **CF from Operations** | **5,202** | **3,345** | **5,303** | **4,438** | **6,327** | **5,791** | **6,809** | **7,807** |
| Others | 220 | 106 | 387 | -305 | 521 | 0 | 0 | 0 |
| **CF from Operating incl EO** | **5,421** | **3,451** | **5,690** | **4,133** | **6,848** | **5,791** | **6,809** | **7,807** |
| (Inc)/Dec in FA | -2,524 | -1,983 | -2,403 | -3,001 | -4,710 | -4,250 | -4,000 | -4,500 |
| **Free Cash Flow** | **2,897** | **1,467** | **3,287** | **1,132** | **2,139** | **1,541** | **2,809** | **3,307** |
| (Pur)/Sale of Investments | 0 | 17 | 0 | 0 | -456 | 0 | -1,000 | -500 |
| **CF from Investments** | **-2,249** | **-1,896** | **-2,227** | **-3,106** | **-5,474** | **-3,877** | **-4,600** | **-4,544** |
| Issue of Shares | 6 | -424 | 0 | -17 | 0 | 0 | 0 | 0 |
| Inc/(Dec) in Debt | -1,385 | -107 | -2,897 | -817 | -15 | -1,000 | -1,700 | -1,400 |
| Interest Paid | -951 | -947 | -830 | -524 | -461 | -386 | -283 | -217 |
| Dividend Paid | -22 | -40 | -43 | -64 | -296 | -318 | -603 | -1,090 |
| Others | 0 | 0 | 0 | 136 | 136 | 0 | 0 | 0 |
| CF from Fin. Activity | -2,351 | -1,518 | -3,770 | -1,285 | -636 | -1,704 | -2,586 | -2,707 |
| **Inc/Dec of Cash** | **820** | **36** | **-308** | **-258** | **738** | **210** | **-377** | **555** |
| Opening Balance | 646 | 1,466 | 1,502 | 1,195 | 937 | 1,674 | 1,884 | 1,508 |
| **Closing Balance** | **1,466** | **1,502** | **1,195** | **937** | **1,674** | **1,884** | **1,508** | **2,063** |

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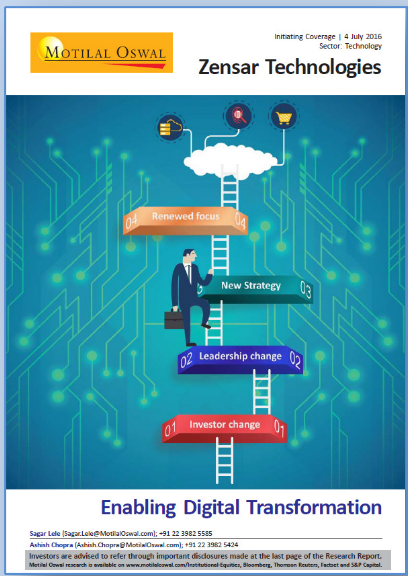
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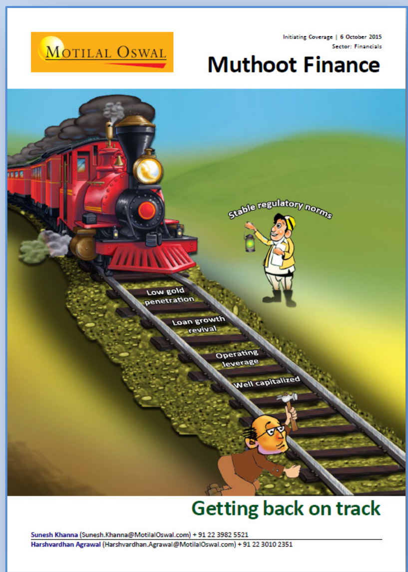
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SEBI pursuant to a complaint from client Shri C.R. Mohanraj alleging unauthorized trading, issued a letter dated 29th April 2014 to MOSL notifying appointment of an Adjudicating Officer as per SEBI regulations to hold inquiry and adjudge violation of SEBI Regulations; MOSL replied to the Show Cause Notice whereby SEBI granted us an opportunity of Inspection of Documents. Since all the documents requested by us were not covered we have requested to SEBI vide our letter dated June 23, 2015 to provide pending list of documents for inspection.
List of associate companies of Motilal Oswal Securities Limited -Click here to access detailed report

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| Disclosure of Interest Statement | Endurance Technologies |
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| ▪ Analyst ownership of the stock | No |
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A graph of daily closing prices of securities is available at www.nseindia.com and http://economictimes.indiatimes.com/markets/stocks/stock-quotes

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