May 01, 2017

Endurance Technologies Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based /Non Fund Based Bank Facilities	22.00	[ICRA]AA (Positive)/[ICRA]A1+; Assigned
Commercial Paper	100.00	[ICRA]A1+, Assigned
Total	**122.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]AA (pronounced ICRA double A)[1] and short-term rating of [ICRA]A1+ (pronounce ICRA A one plus) on the Rs. 22.00-crore[2] fund-based and non-fund based bank facilities of Endurance Technologies Limited (Endurance). The outlook on the long-term rating is 'Positive'. ICRA has also assigned [ICRA]A1+ rating for Rs 100.00 crore commercial paper program of Endurance.

Rationale

The assigned ratings reflect Endurance's position as one of the largest auto components manufacturers in India; its diversified product mix and geographical presence; comfortable capital structure and strong liquidity profile in the backdrop of healthy cash accruals and undrawn bank lines. Endurance was started as captive supplier of aluminium die cast components for Bajaj Auto Limited (BAL), and over the years company has ventured into other product segments and added other original equipment manufacturers (OEMs) to diversify its client base as well as product base. Company has also expanded its casting operations in Europe via acquisition, which primarily caters to European passenger vehicle OEMs. Currently, European operations accounts for 30% of consolidated turnover with Indian operations accounting for the rest of turnover. The rating strengths are partially offset by high single client concentration risk with largest client constituting 38% of consolidated revenue and top two clients contributing about 54% of consolidated turnover during 9mFY17. Also, company's operations remain susceptible to cyclicality associated with automotive industry. Nevertheless, company has gradually added other clients over the years which has reduced its dependency on a few large customers which when coupled with its presence across automotive segments (passenger vehicle [PV], two-wheeler [2W] and three-wheeler [3w]) also lends stability to revenue.

The positive outlook on long term rating reflects ICRA expectation that company's credit profile is expected to strengthen further with gross debt/OPBIDTA reducing to 0.6x on sustainable basis and dependency on its top two customers reducing below 50% over the medium term.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

[2] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- Amongst the largest Indian auto component manufacturers with longstanding relationship with reputed automotive OEMs; gaining traction in other OEMs as well
- Diversified presence across various products segment as well as applications (2W, 3W, PV)
- Economies of scale reflecting in healthy and stable operating margin, despite volatility in RM prices
- Comfortable capital structure and liquidity profile; Indian as well as overseas operations are profitable and generating healthy cash flow from operations

Credit weaknesses

- While company has gradually diversified its customer presence, BAL still constitute about 55 % of standalone revenue and 38% (during 9mFY17) of consolidated revenue
- Exposure to cyclicality in automotive industry, both in domestic as well as overseas market

Description of key rating drivers:

Endurance was started as captive supplier of BAL; however, over the years, company has added several customers and product lines to diversify its customer and product base. As on date, Endurance is amongst the largest 2W and 3W auto component manufacturers in India with presence in a) aluminum die casting [45% of standalone revenue], b) suspension [35%], c) transmission [8%] and d) brake components [7%]. Indian operations primarily cater to 2W and 3W segment, whereas European business is mainly for passenger vehicle segment. While company has grown organically in Indian market by entering into various product segments and gaining traction across key 2W and 3W OEMs, it has gained foothold in European market via inorganic acquisitions. European operations cater to casting requirement of passenger vehicle segment, and they have no presence in 2W and 3W segment. Indian operation accounts for 70% of the consolidated turnover and European business accounts for the remaining share.

Share of casting business is on a declining trend, as other segments are growing at a faster pace due to increasing shift towards technologically superior products where realization are also higher. Casting (including alloy wheels) share declined from 49% in FY14 to 45% currently. With ABS[3]/CBS[4] system(in transmission segment) becoming mandatory by FY20 and shift in customer preference towards telescopic front forks, share of transmission and suspension system is expected to increase further in coming years. At present, Endurance has dominant share in supplies of aluminium castings and suspension system for BAL and Royal Enfield (RE, motorcycle division of Eicher Motors Limited), and it has gradually made inroads in supplies of components to Honda Motorcycle & Scooters India Private Limited (HMSI) and Hero MotoCorp Limited (HMCL). Recently, Endurance has been selected as sole supplier of suspension components for HMCL's Gujarat unit. With addition of new customers, Endurance dependence on BAL is expected to reduce over the medium term.

Endurance benefit from large scale of operations and its exposure to 2W segment which is relatively resilient to cyclicality in automotive industry. Consequently, OPBIDTA margin of Endurance has remained fairly stable ~12% which when coupled with reduction in debt level has improved net margins of the company over the last few years. On account of low debt level and large net worth, company's capital structure at standalone as well as consolidated level remain fairly comfortable. Earlier, during

[3] Anti Skid Braking System [ABS]
[4] Combined Braking System

2008-2009, company has written off some investments which adversely impacted its net worth; nevertheless, subsequent revival of European operations and steady cash generation at Indian unit resulted in much improved capital structure. Endurance is expected to generate cash profits in excess of Rs 550 crore over the medium term which will be sufficient to funds its annual capex plan of Rs 400 crore without relying on borrowings. The liquidity profile of the company is expected to remain strong in the backdrop of undrawn bank lines and strong cash flow from operations.

Analytical approach: For analysis, ICRA has taken consolidated view of Endurance Indian operations as well as its overseas subsidiaries.

Links to applicable criteria:
Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Auto Component Manufacturers

About the company:
Endurance Technologies Limited (Endurance) is amongst largest auto component companies in India with presence across aluminium die cast components, suspension, transmission and braking components. The company was started as a captive supplier of components to Bajaj Auto Limited (BAL) and over the years, company has gained scale by diversifying into various other product segments and adding new clients. The Company has strong research & developments (R&D) team as well as quality focus and it has recently won the QCDDM award as a preferred supplier to HMSI. During 9mFY17, at standalone level, 2W business accounted for 79% of revenue followed by 3W segment at 12% and passenger vehicle segment (6%). Endurance also has strong aftermarket business with 12 distribution centers and 262 distributors in India.

In Europe, company has grown via acquisition in castings business. Endurance has strong relationship with Fiat Chrysler Automotive (FCA) group which also accounts for bulk (49.56% of European revenue) of European revenue during FY2016. In Europe, Endurance manufactures components used in engine & transmission, and supplies them in fully machined form to its customers.

In Oct-2016, Endurance came out with public issue to provide exit to private equity investor Actis which held 13.7% stake in the company. The company is listed on Bombay Stock Exchange (BSE) and National Stock Exchange (NSE). Promoter and their family members currently accounts for 82.5% shareholding in the company.

During FY16, at standalone level, Endurance reported a net profit of Rs 206 crore on an operating revenue of Rs 3,674 crore. At consolidated level, during FY16, Endurance reported a net profit of Rs 291 crore on operating revenue of Rs 5,241 crore.

During 9mFY17, at standalone level, Endurance reported a net profit of Rs 169 crore on operating revenue of Rs 2,920 crore. At consolidated level, during 9mFY17, Endurance reported a net profit of Rs 247 crore on operating revenue of Rs 4,208 crore.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

S. No.	Instrument	Current Rating (2017)			Chronology of Rating History for the past 3 years		
		Type	**Amount Rated (Rs. Crore)**	**Date & Rating**	**Date & Rating in FY2016**	**Date & Rating in FY2015**	**Date & Rating in FY2014**
				May 2017	**-**	**-**	**-**
1	Fund Based/Non-Fund Based Limits	Short Term/ Long Term	22.00	[ICRA]AA (Positive)/ [ICRA]A1+	-	-	-
2	Commercial Paper	Short Term	100.00	[ICRA]A1+	-	-	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Instrument Details

Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Fund Based/ Non Fund Based	-	-	-	22.00	[ICRA]AA (Positive)/[ICRA]A1+
Commercial Paper	-	-	7-365 days	100.00	[ICRA]A1+

Source: Endurance Technologies Limited

Contact Details

Analyst Contacts

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6169 3300
shivakumar@icraindia.com

About ICRA Limited:

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Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	