Endurance Technologies Ltd

June 27, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Commercial paper	100.00	100.00	[ICRA]A1+ reaffirmed
Long-term/Short-term fund/ non-fund based	22.00	22.00	[ICRA]AA+(Stable); upgraded from [ICRA]AA(Positive)/[ICRA]A1+ reaffirmed
Total	**122.00**	**122.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating outstanding on the Rs.22.00 crore fund based and non-fund based facilities of Endurance Technologies Ltd (ETL/the company) from [ICRA]AA (pronounced ICRA double A) to [ICRA]AA+ (pronounced ICRA double A plus). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ outstanding on the said bank line facility and the Rs.100 crore commercial paper programme of ETL. The outlook on the long-term rating has been revised from positive to stable.

Rationale

The rating upgrade factors in the sustained improvement in ETL's credit profile on the backdrop of strong accruals from operations supported by new order wins from new clients and improved wallet share with existing customers. Credit profile of ETL is expected to strengthen further with TD/OPBIDTA likely to remain below 1.0x and gross leverage to remain below 0.4x over the medium term, despite Rs 450-500 crore of investments towards capacity expansion, R&D and other capital expenditure. The ratings continue to draw comfort from ETL's strong market position in segments it has forayed, viz. aluminium die casting, suspensions, transmission and braking systems; healthy product and geographic diversification. The rating strengths are partially offset by significant albeit reducing client concentration risks with respect to Bajaj Auto Limited (BAL) in the domestic market and Fiat Chrysler Automotive (FCA) in the European market; and inherent risks associated with cyclicality of the global automotive industry.

Going forward, ICRA expects revenue growth to be robust backed by new orders won with key OEMs in the domestic and international market and profit margins to be stable given the management's drive to focus on higher value-added products. Moreover, the implementation of anti-lock braking system in India is expected to improve ETL's revenue prospects in the braking division. The company has entered into a technical collaboration with BWI, USA for the development and manufacture of ABS systems in India.

With cash balances of over Rs.500 crore as on March 31, 2018 and with the impending mandatory stake dilution of the promoter from 82.5% to 75% in FY2020, ETL's liquidity profile is likely to remain strong despite expected organic & inorganic expansions over the medium term. However, any large debt funded acquisition would have to be evaluated on a case to case basis and would remain a key sensitivity going forward.

Outlook: Stable

ICRA believes ETL will benefit from its strong order book and long-standing relationship with its key customers resulting in incremental sales. The outlook may be revised to 'Positive', If ETL is able to significantly improve its scale of operations without any adverse impact on capital structure; and reduce its overall dependency on top two clients significantly. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major debt funded acquisitions undertaken by the company which will adversely impact the financial profile.

Key rating drivers

Credit strengths

Among the largest Indian auto component manufacturers with long-standing relationship with reputed automotive OEMs- With revenues to the tune of Rs.6,500 crore at the consolidated level in FY2018, ETL is one of the largest automotive component manufacturers in India. The company was initially started as a supplier of aluminium castings to BAL and over the years improved its scale through improvement in wallet share with BAL and diversification across segments, geographies and customers. ETL is a key supplier to major two-wheeler OEMs like BAL, Royal Enfield (RE), Honda Motorcycles and Scooters India Limited (HMSI), Hero MotoCorp Limited (HMCL). In India, ETL has leading market share in supply of aluminium die casting components (accounts for 45% of ETL's standalone revenues). Also, ETL is among the top three suppliers of suspension, transmission and braking products in the domestic 2W auto-component market. In India, ETL has high exposure to 2W and 3W segment, whereas it derives majority of its revenue from passenger vehicle segment in its European subsidiaries. Indian operations contributed to 71% of total revenues and Europe contributed to the rest in FY2018. In Europe, ETL's key clientele includes FCA, Volkswagen AG, Daimler AG and Getrag.

Robust revenue growth in FY2018 and strong orderbook for FY2019 – Backed by order break throughs with new customers, increase in wallet share of existing customers and commencement of deliveries for orders won previously, ETL's revenues grew by ~20% at the standalone level and ~17% at the consolidated level in FY2018. Going forward, the company has won new orders from OEMs like HMSI, HMCL, incremental orders from Hyundai Motors India Limited (HMIL), BAL & RE in the Indian market and Volkswagen, Daimler in the European market, which is expected to aid revenue growth over the medium term.

Improving scale economies and migration to margin accretive products resulting in stable profit margins despite volatile raw material prices – With improvement in content per vehicle with its customers and migration towards higher value-added products ETL benefitted from scale economies and improved operating leverage, which resulted in robust profit margins and superior return indicators. The company's return on capital employed has remained healthy over 22% in the last four years at the consolidated level. Further, with back to back pricing arrangements with OEMs, ETL is partially insulated against raw material price fluctuations which lent stability to operating margins.

Implementation of ABS to open up new avenues for revenue growth – With the Government of India making anti-lock braking systems mandatory for two-wheelers above 125cc and continuous braking systems for two-wheelers below 125cc from April 2019, penetration levels of ABS and CBS are expected to increase rapidly. The company has entered into a technical collaboration with BWI, USA for manufacturing anti-lock braking system in India. ETL is well placed to compete with other majors like Bosch India Limited, Continental India Limited for supplies of ABS in 2W segment.

Financial profile characterised by healthy capital structure and strong liquidity profile – ETL's financial profile is characterised by low gearing of 0.4 times at the consolidated level and 0.1 times at the standalone level and comfortable total debt to OPBDITA of 0.9 times at the consolidated level in FY2018. Further the company's working capital intensity has remained low at ~7% at the consolidated level backed by prudent working capital management. The company's liquidity profile remains strong with cash and liquid investments to the tune of Rs. 548 crore as of March 2018 at the consolidated level.

Credit challenges

Significant albeit consistently reducing customer concentration with respect to BAL in the domestic market and FCA in Europe- Even though ETL supplies to several two-wheeler OEMs in India, BAL continues to be the mainstay of the company's revenues constituting 35% of consolidated revenues and 49% of standalone revenues in FY2018. However, the share of revenues from BAL has reduced from highs of 60% in the past through diversification initiatives undertaken by the company. Similarly, FCA accounts for over 50% of ETL's European revenues exposing ETL to customer concentration risks in Europe. With new order wins from other OEMs in India and Europe, revenue share from the said OEMs are expected to reduce.

Exposure to cyclicality in automotive industry, both in domestic as well as overseas market – While ETL benefits from significant product and geographic diversification, it is still plagued by inherent risks associated with cyclical nature of the automotive industry. The company also has presence in the aftermarket segment but this constitutes less than 5% of sales. Increasing management focus to improve aftermarket presence could aid in insulation of revenues against the cyclicality in the Indian and European automotive industries.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Auto Component Manufacturers

About the company:

ETL is one of the largest automotive component manufacturers in India with presence across aluminium die cast components, suspension, transmission and braking components. The company was started as a supplier of casting components to Bajaj Auto Limited (BAL) and gained scale over the years by diversifying into various other product segments and adding new clients. The Company has a 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 FY2018, at the 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 315 distributors/dealers in India and 35 dealers overseas.

In Europe, the company has grown via acquisitions in the castings business. ETL has a strong relationship with Fiat Chrysler Automotive (FCA) group which also accounts for bulk (50.0% of European revenue) of European revenue during FY2018. In Europe, Endurance manufactures components used in engine & transmission, and supplies them in fully machined form to its customers.

In FY2018, at the consolidated level, the company reported a net profit of Rs. 390.8 crore on an operating income of Rs. 6,538.1 crore, as compared to a net profit of Rs. 330.3 crore on an operating income of Rs. 5,590.9 crore in the previous year.

In FY2018, at the standalone level, the company reported a net profit of Rs. 271.1 crore on an operating income of Rs. 4,641.1 crore, as compared to a net profit of Rs. 221.5 crore on an operating income of Rs. 3,879.8 crore in the previous year.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2017	FY2018	FY2017	FY2018
Operating Income (Rs. crore)	3,879.8	4,641.1	5,590.9	6,538.1
PAT (Rs. crore)	221.5	271.1	330.3	390.8
OPBDIT/OI (%)	12.1%	12.6%	13.6%	14.2%
RoCE (%)	19.4%	22.6%	22.1%	23.2%
Total Debt/TNW (times)	0.1	0.1	0.4	0.4
Total Debt/OPBDIT (times)	0.4	0.3	0.9	0.9
Interest coverage (times)	26.3	57.2	23.5	39.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
					Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	June 2018	May 2017	-	-
1	Commercial Paper	Short Term	100.00	100.00	[ICRA]A1+	[ICRA]A1+	NA	NA
2	Fund/Non-fund based	Long Term/Short term	22.00	0.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Positive)/ [ICRA]A1+	NA	NA

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	365 days	100.00	[ICRA]A1+
NA	Long/Short-term Fund/Non-fund based	NA	NA	NA	22.00	[ICRA]AA+(Stable)/[ICRA]A1+

Source: Endurance Technologies Ltd

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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