

September 30, 2021

## Endurance Technologies Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term / Short Term – Fund Based / Non Fund Based Limits	22.0	22.0	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Commercial Paper	100.0	100.0	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>122.0</b>	<b>122.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA's ratings on Endurance Technologies Limited (ETL or the company) continue to draw comfort from the company's strong standing as one of the largest Indian automotive component manufacturers with a strong clientele spanning all major two wheeler (2W) original equipment manufacturers (OEMs) in the domestic market and reputed four wheeler (4W) OEMs such as Fiat Chrysler Automobiles NV, Volkswagen AG and Daimler AG in the European market; and its diversified product offerings across aluminium diecasting, suspension, transmission and braking components. Further, the ratings also reflect ETL's low leverage and strong debt coverage indicators, which is likely to sustain in the near to medium term despite Covid-19 related headwinds. ICRA expects ETL's revenues to register healthy revenue and profit growth over medium term, supported by ramp-up in new orders as well as increase in share of value-added products. The company's liquidity position remains solid, supported by cash and liquid investments of over Rs 950 crore at the consolidated level and undrawn bank lines of over Rs 450 crore as on June 30, 2021 on standalone level.

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 inherent risks associated with cyclicity of the global automotive industry, given its limited presence in the after-market segment. Further, the increasing thrust to shift towards electric vehicles (EV) worldwide could pose a challenge to the company's transmission products in the long run. With ETL's success in winning sizeable business for component supplies to EV / hybrid vehicles in Europe and new product developments for the EV segment in India coupled with strong research and development capabilities, ICRA expects ETL to gradually shift its product offerings to suit the demand conditions and hence minimise any adverse impact on the company's cash flows over the medium term. ICRA expects the company to grow organically and inorganically over the medium term, to gain access to new customers, products and technology. Large debt funded expansion, if any, will be evaluated on a case to case basis.

The Stable outlook on the long-term rating of ETL reflects ICRA's expectations that the company would continue to benefit from the well-established track record across various business verticals within the automotive space, both in India and Europe. Its efforts to increase the share of business from higher value-added products such as fully machined components are expected to strengthen the profitability metrics over the near to medium term.

### Key rating drivers and their description

#### Credit strengths

**Among the largest Indian auto component manufacturers with long-standing relationship with reputed automotive OEMs-** With revenues to the tune of Rs 6,547 crore at the consolidated level in FY2021, ETL is one of the largest automotive component manufacturers in India. Indian operations contributed to 73% of total revenues and Europe contributed to the rest

in FY2021. Currently ETL supplies to all the major 2W OEMs in India and is a key supplier to BAL, Royal Enfield (RE), Honda Motorcycle & Scooters India Limited (HMSI) and Hero MotoCorp Limited (HMCL). In Europe, ETL's key clientele includes Volkswagen AG, FCA, and Daimler AG. With improvement in content per vehicle with its customers and migration towards higher value-added products, ETL has over the years benefitted from scale economies and improved operating leverage, which has resulted in robust profit margins and healthy 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 fairly insulated against raw material price fluctuations which lends stability to its operating margins.

**Diversified product mix with presence in aluminium die casting, suspension, braking and transmission segment** - In India, ETL has a leading market share in supply of aluminium die casting components (accounts for 36% of ETL's standalone revenues). Also, ETL is amongst the top suppliers of suspension, transmission and braking products in the domestic 2W auto-component market. Over the years, the company has grown by increasing its wallet share with the OEMs, by gradually gaining inroads into all four components it supplies. Recent acquisition in Europe would add to the company's technological capability for transmissions and brakes. In India, ETL has high exposure to 2W and 3W segment, whereas in Europe it derives majority of its revenue from passenger vehicle segment.

**Financial profile characterised by low leverage and strong liquidity profile**- ETL's financial profile is characterised by low gearing of 0.2 times and comfortable total debt to OPBDITA of 0.6 times at the consolidated level in FY2021. Further the company's working capital intensity has remained moderate at ~8% at the consolidated level backed by prudent working capital management. The company's liquidity profile remains strong with cash and liquid investments of over Rs.950 crore as of March 31, 2021 at the consolidated level.

## Credit challenges

**Significant albeit consistently reducing customer concentration with respect to BAL in the domestic market** – Even though ETL supplies to several two-wheeler OEMs in India, BAL continues to be the mainstay of the company's revenues constituting 39% of consolidated revenues and 54% of standalone revenues in FY2021. However, the share of revenues from BAL has reduced from highs of 60% in the past through diversification initiatives undertaken by the company. Similarly, in Europe the company diversified its customer base with order wins with Volkswagen and Daimler, reducing revenue share of FCA (in Europe business) from highs of 60% to 28% in FY2021.

**Aluminium casting business is exposed to electrification in automotive industry** – ETL supplies engine, transmission and structural casting components for 2W, 3W and PV segments, and engine components are exposed in the long term, to business obsolescence risk due to electrification (i.e. higher penetration by EV and hybrid vehicles). However, the company has already started shifting its product offerings towards hybrid and electric vehicles in Europe, where the penetration of EV is higher than the price sensitive domestic market. In the domestic market, it is developing new components relevant to EV and ICRA expects EV penetration in India to be low in the medium term. Hence overall impact on company's cash flows will not be material in the near to medium term.

**Exposure to cyclicity 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 consolidated sales. Increasing management focus to improve aftermarket presence, as articulated by the management, could aid in insulation of revenues against the cyclicity in the Indian and European automotive industries.

## Liquidity position: Strong

With cash and liquid investments of over Rs. 950 crore at the consolidated level as of March 31, 2021 and with adequate buffer in working capital lines, ETL's liquidity profile remains strong. The company has a fund based sanctioned working capital limit of Rs .501 crore, where the average utilization is less than 10%.

## Rating sensitivities

**Positive factors** – ICRA could upgrade ETL’s rating or outlook could be revised to positive if the company demonstrates significant improvement in scale of operations and return indicators (RoCE more than 25%), and there is substantial diversification in customer profile and improvement in aftermarket presence.

**Negative factors** – Any large debt funded acquisition or capacity expansion impacting financial profile of ETL, such that net debt/OPBDITA remain above 1.5 times on sustain basis. Deterioration in performance of principal customer and subsequent impact on ETL’s turnover and profitability indicators.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Auto Component Suppliers</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of Endurance Technologies Limited.

## About the company

ETL is among the largest auto component companies in India present across aluminium die cast components, suspension, transmission and braking components. The company was started as a captive supplier of components to BAL, and over the years the company has gained scale by diversifying into various other product segments and adding new clients. The company has a strong research and development (R&D) team as well as quality focus and it had recently won the QCDDM award as a preferred supplier to Honda Motorcycles & Scooters India Limited (HMSI) and India Yamaha Global Award for the best implementer of the Theoretical Value Production (TVP) Project.

Outside India, the company has grown via acquisitions in the castings business primarily in European markets. ETL enjoys a strong relationship with Volkswagen AG, Daimler AG and FCA Group, which also accounts for the bulk of its European revenue during FY2021. In Europe, ETL manufactures components used in the engine and transmission and supplies them in fully machined form to its customers – primarily in passenger vehicle (PV) segment.

## Key financial indicators (audited, consolidated)

Endurance Technologies Limited	FY2020	FY2021
Operating Income (Rs. crore)	6917.7	6547.0
PAT (Rs. crore)	565.5	519.6
OPBDIT/OI (%)	16.3%	15.9%
PAT/OI (%)	8.2%	7.9%
Total Outside Liabilities/Tangible Net Worth (times)	0.7	0.6
Total Debt/OPBDIT (times)	0.7	0.6
Interest Coverage (times)	64.5	75.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 30, 2021	Sep 11, 2020	Aug 23, 2019	Jun 27, 2018
1	Fund based / Non fund based limits	Long-term / Short term	22.0	NA	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
2	Commercial Paper	Short-term	100.0	0.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term / Short term, Fund based / Non fund based limits	Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

**Annexure-1: Instrument details**

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long term / Short term, Fund based / Non fund based limits	NA	NA	NA	22.0	[ICRA]AA+(Stable)/ [ICRA]A1+
Not placed	Commercial Paper	NA	NA	NA	100.0	[ICRA]A1+

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Endurance Overseas Srl	100.00%	Full Consolidation
Endurance SpA	100.00%	Full Consolidation
Endurance Castings SpA	100.00%	Full Consolidation
Endurance Engineering Srl	100.00%	Full Consolidation
Endurance Adler SpA	99.00%	Full Consolidation
Endurance Amann GmbH	100.00%	Full Consolidation

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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.

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### Branches



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