

August 23, 2019

Endurance Technologies Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Fund-based/Non-fund based/ Long/short -Term	22.00	22.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Total	122.00	122.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation reflects the position of Endurance Technologies Limited (ETL) as one of the largest auto component 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. From being a captive supplier of aluminium castings to Bajaj Auto Limited (BAL), ETL has expanded its product offerings to suspension, transmission and brake components and exhibited consistent growth in the past (CAGR of 12.2% between FY2014 and FY2019). ETL is a key supplier of parts to major two-wheeler (2w) original equipment manufacturers (OEMs) in India like Honda Motorcycles and Scooters India Private Limited (HMSI), Royal Enfield, Hero MotoCorp Limited (HMCL); and four-wheeler (4w) OEMs like VW group and Fiat Chrysler in Europe and like Hyundai Motors India Limited (HMIL) in India. The company's financial profile is characterized by strong operating margins of 15% at the consolidated level and 13.5% at the standalone level in FY2019 driven by increasing value addition and operational efficiency.

ICRA expects ETL to record above industry revenue growth backed by incremental orders from existing clients, order break throughs with new clients like TVS Motor Company Limited (TVS) and Kia Motors India Private Limited (Kia). The rating strengths are partially offset by significant albeit reducing client concentration risks with respect to BAL in the domestic market and Fiat Chrysler Automotive (FCA) in the European market; and inherent risks associated with cyclicity of the global automotive industry, given its limited presence in the after-market segment.

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.7,500 crore at the consolidated level in FY2019, ETL is one of the largest

automotive component manufacturers in India. ETL is a key supplier to major two-wheeler OEMs like BAL, Royal Enfield (RE), HMSI and HMCL. The company has grown by increasing its wallet share with the OEMs, by gradually gaining inroads into all four components it supplies. In India, ETL has leading market share in supply of aluminium die casting components (accounts for 43% 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 in Europe it derives majority of its revenue from passenger vehicle segment. Indian operations contributed to 72% of total revenues and Europe contributed to the rest in FY2019. In Europe, ETL's key clientele includes FCA, Volkswagen AG, Daimler AG and Magna PT (earlier Getrag).

Robust revenue growth in FY2019 and strong orderbook for FY2020 In FY2019, ETL registered a robust revenue growth of 16.7¹% at the standalone level and 14.9% at the consolidated level driven by incremental orders from BAL, HMSI, HMIL, HMCL and Yamaha in India; and Volkswagen and Daimler in Europe. The management expects the momentum to continue despite headwinds in the domestic and international automotive industry, given healthy orderbook and management strategy to increase wallet share with its OE customers and order break throughs with new OEMs like TVS and Kia.

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 its operating margins.

Financial profile characterised by healthy capital structure and strong liquidity profile- ETL's financial profile is characterised by low gearing of 0.3 times at the consolidated level and 0.1 times at the standalone level and comfortable total debt to OPBDITA of 0.6 times at the consolidated level in FY2019. Further the company's working capital intensity has remained low at ~2% 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. 537 crore as of March 2019 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 39% of consolidated revenues and 54% of standalone revenues in FY2019. 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 ~40% of ETL's European revenues exposing ETL to customer concentration risks in Europe. However, new order wins from other customers like Volkswagen and Daimler partially insulate ETL's revenues from customer concentration risks.

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

¹ According to the management, the revenue growth at the standalone level is 20.7% and at the consolidated level is 18.2%. due to reclassification of revenues done in FY2019 on account of IndAS

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 cyclicity in the Indian and European automotive industries.

Liquidity position:

The company has annual debt repayment obligations to the tune of Rs.100-Rs.200 crore in the next three fiscals. With average cash balances and liquid investments to the tune of Rs.500 crore (at the consolidated level) and expected cash accruals of over Rs.700 crore, ETL is comfortably placed to meet its debt obligations. Further, the company's average working capital utilisation is modest (<20%) in the last twelve months, lending comfort to its credit profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation / Standalone	Consolidated financial statements

About the company:

Endurance Technologies Limited (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 has 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.

During FY2019, ETL's 2w business accounted for 56% of its revenues, followed by the 4w segment (32%, includes both passenger vehicle (PV) & commercial vehicle (CV) segment) and the 3w segment (12%). Endurance also has a strong aftermarket business with 12 distribution centres and 262 distributors in India.

Outside India, the company has grown via acquisitions in the castings business primarily in European markets. Endurance enjoys a strong relationship with the Fiat Chrysler Automotive (FCA) Group, which also accounts for the bulk (~33%) of its European revenue during FY2019. In Europe, Endurance manufactures components used in the engine and transmission and supplies them in fully machined form to its customers – primarily in passenger vehicle (PV) segment.

In FY2019, on a standalone basis, the company reported a net profit of Rs. 357.9 crore on an operating income of Rs. 5,417.5 crore, as compared to a net profit of Rs. 271.1 crore on an operating income of Rs. 4,641.1 crore in the previous year.

In FY2019, on a consolidated basis, the company reported a net profit of Rs. 495.0 crore on an operating income of Rs. 7,510.5 crore, as compared to a net profit of Rs. 390.8 crore on an operating income of Rs. 6,538.1 crore in the previous year.

Key financial indicators (audited)

	Standalone		Consolidated	
	FY2018 ²	FY2019	FY2018	FY2019
Operating Income (Rs. crore)	4,641.1	5,417.5	6,538.1	7,510.5
PAT (Rs. crore)	271.1	357.9	390.8	495.0
OPBDIT/OI (%)	12.6%	13.5%	14.2%	15.0%
RoCE (%)	22.6%	26.7%	23.2%	25.5%
Total Debt/TNW (times)	0.1	0.1	0.4	0.3
Total Debt/OPBDIT (times)	0.3	0.3	0.9	0.6
Interest coverage (times)	57.2	42.9	39.3	43.9

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the Past 3 Years			Date & Rating in FY2017
		Amount (Rs. crore)	Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019	Date & Rating in FY2018		
1 CP	Long Term	100.0	100.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	NA	
2 Fund/Non-fund based	Long Term/short-term	22.00	NA	[ICRA]AA+(Stable)/[ICRA]A1+	[ICRA]AA+(Stable)/[ICRA]A1+	[ICRA]AA(Positive)/[ICRA]A1+	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

² FY2018 financial numbers have been reclassified as per IndAS

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	7-365 days	100.00	[ICRA]A1+
NA	Long/Short-term Fund/Non-fund based	NA	NA	NA	22.00	[ICRA]AA+(Stable)/[ICRA]A1+

Source: ETL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Endurance Technologies Limited	100.00%	Full Consolidation
Endurance Overseas SrL	100.00%	Full Consolidation
Endurance Amann GmbH	100.00%	Full Consolidation

ANALYST CONTACTS

Subrata Ray

+91 22 6114 3408
subrata@icraindia.com

Gayathri Ramesh

+91 22 6606 9918
gayathri.ramesh@icraindia.com

Ashish Modani

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

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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