

September 11, 2020

Endurance Technologies Limited: Ratings 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

ICRA's ratings on Endurance Technologies Limited, 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 like 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. While ICRA expects ETL's revenues to moderate in FY2021, especially due to Covid-19 related lockdown restrictions during Q1 FY2021, profitability and return indicators are expected to be healthy because of the increase in share of value-added products and cost rationalization measures employed by ETL. The company's liquidity position remains solid, supported by cash and liquid investments of over Rs 700 crore at the consolidated level and undrawn bank lines of over Rs 500 crore as on June 30, 2020.

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 worldwide, could pose a challenge to the company's aluminium casting products in the long run. However, with ETL's efforts to increase the share of component supplies to EV business 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 the overall impact on the company's cash flows in the near to 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.

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 6,917 crore at the consolidated level in FY2020, ETL is one of the largest automotive component manufacturers in India. Indian operations contributed to 71% of total revenues and Europe contributed to the rest in FY2020. 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 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.

Diversified product mix with presence in aluminium die casting, suspension, braking and transmission segment- In India, ETL has leading market share in supply of aluminium die casting components (accounts for 38% 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. 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 healthy capital structure and strong liquidity profile- ETL's financial profile is characterised by low gearing of 0.2 times and comfortable total debt to OPBDITA of 0.7 times at the consolidated level in FY2020. Further the company's working capital intensity has remained low at ~3% 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.700 crore as of June 30, 2020 at the consolidated level

Credit challenges

Significant albeit consistently reducing customer concentration with respect to BAL in the domestic market and FCA in the European 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 FY2020. 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 from highs of 60% to 27% in FY2020.

Aluminium casting business is exposed to electrification in automotive industry- ETL supplies engine and transmission components for 2W, 3W and PV segments which is exposed to business obsolescence risk due to electrification in the long-term. 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 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: Strong

With cash and liquid investments of over Rs.100 crore at the standalone level and over Rs.700 crore at the consolidated level, as of June 30,2020 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.541 crore, where the average utilization is ~10%.

Rating sensitivities

Positive triggers – 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 triggers – Any large debt funded acquisition or capacity expansion impacting financial profile of ETL, such that net debt/OPBDTA 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	Corporate Credit Rating Methodology Rating Methodology for Auto Component Suppliers
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated financial statements

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 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.

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 FY2020. 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)

	Standalone		Consolidated	
	FY2019	FY2020	FY2019	FY2020
Operating Income (Rs. crore)	5,417.5	4,938.6	7,510.5	6,917.7
PAT (Rs. crore)	357.9	427.7	495.0	565.5
OPBDIT/OI (%)	13.5%	15.0%	15.0%	16.3%
PAT/OI (%)	6.6%	8.7%	6.6%	8.2%
Total Outside Liabilities/TNW (times)	0.4	0.3	0.9	0.7
Total Debt/OPBDIT (times)	0.3	0.2	0.6	0.7
Interest coverage (times)	42.9	68.6	43.9	64.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Rating	23-August 2019	27-June 2018	01-May 2017
					11-Sep-2020			
1	CP	Short Term	100.00	100.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund/Non-fund based	Long Term/Short-term	22.00	NA	[ICRA]AA+(Stable)/[ICRA]A1+	[ICRA]AA+(Stable)/[ICRA]A1+	[ICRA]AA+(Stable)/[ICRA]A1+	[ICRA]AA(Positive)/[ICRA]A1+

Amount in Rs. crore

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	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+

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

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