

# IPO Note (Subscribe)

# **Analyst:**

Varij Bangur Sumeetkumar S Jain

# **IPO details**

Key Data	
Issue Opens	5-Oct-16
Issue Closes	7-Oct-16
Equity Shares Offered (in Rs mn.)	17.5
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	467-472
Max. Issue Size (Rs mn)	11,656
Lot Size (Eq. Shares)	30 and multiple thereof

	Pre Issue	Pre Issue Post Issue^		
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	121.4	86.3%	116.1	82.5%
Non-promoters	19.3	13.72%	0.0	0.0%
Offer For Sale			24.6	17.5%
Total	140.7	100.00%	140.7	100.0%

Promoters	
•Mr Anurag Jain	

Valuation	@ Rs 467 per share	@ Rs 472 per share
Market Cap (Rs mn)	65,692	66,395
Net Debt (Rs mn)	6,165	6,165
Enterprise Value (Rs mn)	71,857	72,561
EV/ Sales	1.4	1.4
EV/ EBIDTA	11.9	12.0
P/B	6.7	6.8
P/E	22.7	22.9

# Objects of Offer for sale To enhance company's visibility and brand

• To provide liquidity to its existing shareholders and holders of options granted by the company.

^NOTE: Valuation Parameters considered are fully subscribed issue for FY16 financials

Source: Red Herring Prospectus, Destimoney Research



# Robust player in the Auto components sector with speciality in two wheeler & three wheeler component manufacturing





# Journey so far...

<ul> <li>Acquisition of assets and liabilities of Grana Srl, Italy by Endurance Engineering</li> <li>Endurance Overseas increased its stake from 15% to 100% by acquiring an additional 85% of shares in Endurance FOA</li> </ul>
<ul> <li>Incorporation of Endurance Engineering by Endurance Overseas to foray into engineering plastic components</li> <li>Scheme of amalgamation between HTTSPL and our Company effective from February 10, 2014</li> </ul>
<ul> <li>Acquisition of 15% stake in Endurance FOA in Italy through Endurance Overseas</li> <li>Dissolution of joint venture agreement with Magneti Marelli SpA, Italy</li> </ul>
<ul> <li>Acquired the remaining 49% shareholding of Endurance Fondalmec through Endurance Overseas</li> <li>Executed a joint venture agreement with Magneti Marelli SpA, Italy</li> </ul>
<ul> <li>Incorporated Endurance Overseas, a special purpose vehicle in Italy for the purpose of making strategic overseas investments</li> <li>Acquired 51% shareholding of Endurance Fondalmec through Endurance Overseas</li> </ul>
<ul> <li>Acquisition of Endurance Amann by our Company through Endurance Holding GmbH in Germany</li> </ul>
■ Incorporated as Endurance Suspension Systems (India) Private Limited

• 1st maufacturing facility;commenced manufacture of aluminium castings in Aurangabad, Maharashtra

Source: Red Herring Prospectus

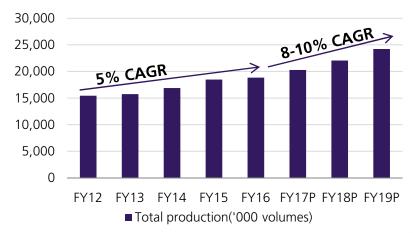


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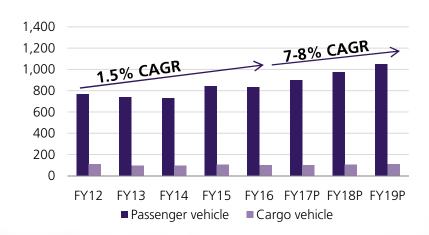
# Demand revival in the sector will complement growth of the company

- With the increasing demand for transportation infrastructure in metropolitan areas and major cities, thus improving penetration in Tier-III and Tier-IV towns and rural areas, and steadily increasing availability of funding through organised channels, demand revival is expected in the automative segment.
- Bajaj Auto, which contributes about 38% of the ET's topline, is one of the two largest manufacturer in the three wheeler segment, with a market share of almost half of the total three wheeler production.
- Also, the market for aluminium castings used in two-wheelers and three wheelers produced in India is expected to grow at a CAGR of8-10% between FY16 and FY19, which currently has a size of Rs 78.5 bn

## Two wheeler production growth



## Three wheeler production growth





# **Products and services offered**

#### ET's Products and services

#### Products and services in India

Aluminum Casting and Machining High-pressure, Low-pressure and Aluminum Alloy Wheels for motorcycles;

Suspension

Shock Absorbers for scooters, motorcycles and three-wheelers, Front Forks for motorcycles and scooters and Hydraulic Dampers for quadricycles.

Transmission

Clutch assemblies, Cork and paper-based Friction Plates for motorcycles and three-wheelers and continuous variable transmission assemblies ("CVTs") for scooters

Brake Systems

Hydraulic Disc Brake assemblies including Calipers, Master Cylinders and Rotary Disc Brakes for motorcycles and Hydraulic Drum Brake assemblies and Tandem Master Cylinder assemblies for three- wheelers

Aftermarket Services

To cater the replacement market

# Products and services in Europe

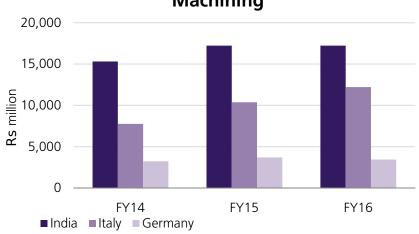
Predominantly cater to Four-wheeler Original Equipment Manufacturers ("OEMs"), focusing on Engine and Transmission Components

Products include raw and machined Aluminum Castings (high-pressure and gravity Die-Casting products) and Steel, Cast Iron and Engineering Plastic parts.

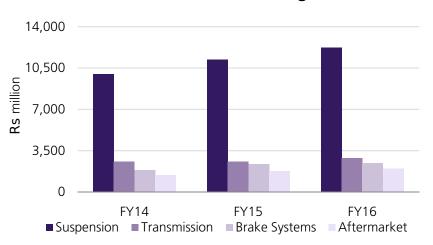


# Aluminium casting and machining major contributor in the topline

# Revenue from Aluminum casting and Machining



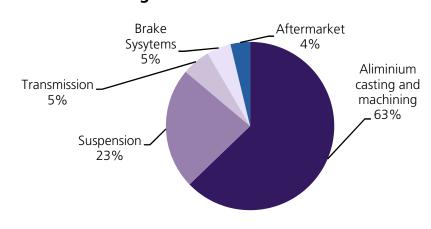
## **Revenue from other segments**



#### **Revenue contribution**



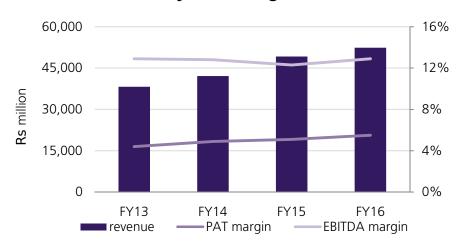
## Segment wise revenue



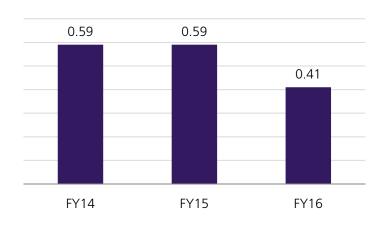


# Consistent growth without pressurizing balance sheet

## **Steady revenue growth**



## **Optimal D/E ratio**



#### Returns remain in the 20's

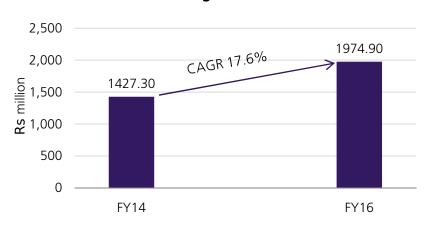


- Revenue in India grew at a CAGR of 8.4% as compared to 2 wheeler and 3 wheeler production which grew at CAGR of 5.6% and 6.1% respectively from FY2014 to FY2016. Revenue from Europe grew at a CAGR of 19.6% from FY2014 to FY2016.
- Debt equity ratio looks healthy and is expected to be so in future.

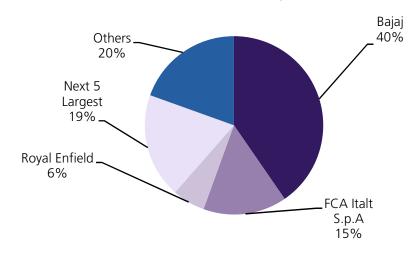


# Aftermarket sales revenue growing at a rapid rate; increasing share of Italian business

#### Aftermarket segment revenue



#### Revenue contribution from major customers



- ET's aftermarket sales service was established in 2001 to cater to the replacement market demand and to help build the "Endurance" brand. This has rapidly developed into an additional source of revenue and profit. It distributes its products for aftermarket sales through its existing channel of 12 distribution centers and 256 distributors across India and 26 distributors outside India.
- Bajaj accounted 40.8% of its revenues, after Bajaj its revenue from next largest customer FCA Italy S.a.P grew at a CAGR of 16.6% i.e, from Rs5894.9 mn in FY14 to Rs8013.7 mn in FY16, and Royal Enfield's contribution grew at a CAGR of 50.5% i.e, from Rs1376 mn in FY14 to Rs3118.7 mn in FY16.
- Increase in revenue with FCA Italy S.p.A. was primarily due to our acquisition of Endurance FOA and with Royal Enfield was primarily as a result of expanding the range of products that it supplied them and it began supplying Royal Enfield with its fourth product segment, brake systems, in FY2016.



# At Rs472 per share, IPO looks fairly valued but offers limited upside for listing gains

## **Peer Comparison**

Company	<b>FY16 Revenue</b> Rs mn	EBIDTA Margin	PAT Margin	ROE	<b>Market Cap</b> Rs mn	EV/ EBIDTA	EV/Sales	P/E
Gabriel India Limited	14,424	9%	5%	20%	17,309	13.7	1.2	23.0
Bharat Forge	76,477	19%	8%	18%	216,824	17.0	3.1	33.3
Rico Auto Industries Limited	10,212	10%	3%	6%	8,752	11.1	1.1	29.7
Endurance Technologies Limited^	52,740	13%	6%	19.90%	66,395	12	1.4	22.9

Financial data used for comparison is for FY16,

^ ET valuations at upper end of price band

Source: Destimoney Research, RHP, ACE Equity

At an upper price band of Rs 472, the company is available at 23x of its FY16 earnings which is less than the industry range of 27-32x. Therefore, the company is fairly valued given its track record, healthy return ratios, robust growth in the automotive sector. Hence, we recommend investors to **subscribe** to the issue.

Source: Destimoney research, ACE Equity



# **Consolidated Summary Financials**

#### **Income Statement**

Rs mn	FY13	FY14	FY15	FY16
Total Income	38,225	42,119	49,170	52,406
COGS	23,984	26,614	30,498	30,760
Operating Expense	9,314	10,097	12,623	14,876
EBIDTA	4,927	5,408	6,049	6,770
Interest & Fin. Charges	929	810	510	464
Depreciation	1,873	2,078	2,269	2,508
Other Income	284	285	325	334
PBT	2,329	2,757	3,595	4,132
Tax	632	704	1,055	1,222
PAT	1,696	2,052	2,540	2,909
Minority Interest	3	7	16	11
Net Profit	1,693	2,045	2,524	2,898

Rs mn	FY13	FY14	FY15	FY16
Gross Margin	37.3%	36.8%	38.0%	41.3%
EBIDTA Margin	12.9%	12.8%	12.3%	12.9%
Net Margin	4.4%	4.9%	5.1%	5.5%
ROE	23.0%	20.9%	22.1%	19.9%
ROCE	20.1%	22.5%	21.9%	20.7%

# **Balance Sheet**

Rs mn	FY13	FY14	FY15	FY16
Liabilities				
Share capital	193	193	176	176
Reserves and surplus	7,164	9,612	11,243	14,366
Minority Interest	15	114	107	-
Deferred tax liabilities	44	23	14	11
Other long term liabilities	30	26	28	97
Long term provisions	204	212	380	376
Long term borrowings	3,467	3,685	4,149	4,196
Trade payables	5,419	6,830	6,665	7,384
Other current liabilities	2,360	2,916	3,003	3,986
Short-term borrowings	4,377	1,283	1,657	1,869
Short-term provisions	155	281	436	456
Total Liabilities	23,428	25,175	27,858	32,917
Assets				
Net Block	10,645	11,333	13,419	16,012
CWIP	316	137	216	818
Goodwill	1,168	1,379	1,108	1,448
Long term loans and advances	492	640	941	953
Non- Current Investment	82	95	10	10
Other non- current assets	39	46	31	76
Deferred tax asset	40	131	222	245
Current Investments	-	-	-	456
Trade receivables	6,207	6,750	5,795	5,928
Cash & bank balances	1,502	1,194	936	1,674
Short-term loans and advances	530	658	1,117	1,097
Other Current Assets	161	160	204	133
Total Assets	23,428	25,175	27,858	32,917



# **Key Risks**

- The company's business is heavily dependent on certain principal customers, especially Bajaj Auto limited in India and FCA Italy S.p.A & its group companies in Europe, and the loss of such customers or a significant reduction in purchases by such customers could adversely affect the business, results of operation and financial condition.
- Endurance Technology is heavily dependent on the performance of the automotive sector in India, particularly the market for two wheelers and three wheelers in India. The company is also dependent on the performance of the automotive sector in Europe for the four wheeler market. Any adverse changes in the conditions affecting these markets can adversely impact the business, results of our operations and financial condition
- The geographical concentration of manufacturing facilities may restrict operations and adversely affect business and financial conditions



# **Destimoney Securities Private Limited**

6th Floor, "A" Wing, Tech-Web Centre, New Link Road, Oshiwara, Near Behram Baug, Jogeshwari (West), Mumbai - 400102

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