

# Endurance Technologies

## Moving up the value curve

We initiate coverage on Endurance with a BUY as the auto parts major is expected to gain 50-75bps in share of component supplies to 2W/3W segment (current value of supplies by the company is estimated at between 5-6%). The auto parts company is expanding into new components such as ABS brakes, CVTs, paper-based clutches and fully machined castings, thereby moving up the value curve. The company currently has RFQs of Rs 12.8bn and has won orders of Rs 10.3bn/ 5.8bn over FY19/20. With the recent acquisition of its Italian technology partners – Grimeca and Adler, the company is further enhancing its capabilities for supplies to the premium bike segment. **Endurance is amongst our preferred pick in the autos/auto parts sector as the company is well positioned to benefit from a demand recovery over FY22/23E.**

- Moving up the value curve:** In our analysis, Endurance's value of the components supplied to the 2W/3W industry is between 5-6% of the overall value, making it the largest parts supplier in this segment. The company has a dominant presence in components it supplies (35-40% in suspension components, 25% in hydraulic brakes, 16% in transmissions). We believe that the company can add another 50-75bps to the overall value of components supplied to the industry, based on its enhanced capabilities. As Endurance expands into new product segments across brake systems, clutches, fully machined aluminium castings and higher value-added suspension products, it has RFQs of Rs 12.8bn on hand (of which ~50% could be converted to new orders). We thus expect Endurance to grow ahead of the market (revenue growth of 14% over FY22/23E).
- Expanding in the premium bike segment:** Endurance is increasing its presence in the high-end bike segment, post its Italian acquisitions of Adler (for transmission components) and Grimeca (for braking systems). The premium segment accounts for one-fifth of its India revenue in our estimate, which is expected to rise further with its expansion into new products in the 200cc+ category.
- Orders from Europe to curtail risk:** Endurance is increasingly focus on hybrids/EV models in its European business and has won new orders worth Euro 110mn (current annual sales is c. Euro 250mn) from the VW group, which would de-risk the company from its traditional model mix.
- Initiate with a BUY:** We set a target price of Rs 1,040 at 25x Jun-22 EPS, which is inline with the average multiple over the past year (which has sustained amidst the COVID outbreak). The valuations factor in mid-teen ROEs and Endurance's growth initiatives. **Key risks:** (1) a delayed recovery in 2W sales in India (2) any pushback in timelines of new orders.

### Financial Summary (Consolidated)

YE Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	63,514	75,105	69,177	64,412	72,358	81,710
EBITDA	9,278	11,288	11,308	10,214	11,910	13,595
APAT	4,176	5,158	5,655	4,464	5,576	6,598
APAT Growth (%)	26.4	23.5	9.6	(21.1)	24.9	18.3
Adj. EPS (Rs)	29.7	36.7	40.2	31.7	39.6	46.9
RoE (%)	21.4	21.8	20.3	14.0	15.5	16.1
P/E (x)	29.4	23.8	21.7	27.5	22.0	18.6
EV/EBITDA	13.2	10.9	10.6	11.2	9.3	7.8

Source: Company, HSIE Research

## BUY

CMP (as on 16 July 2020)	Rs 872
Target Price	Rs 1,040
NIFTY	10,740

### KEY STOCK DATA

Bloomberg code	ENDU IN
No. of Shares (mn)	141
MCap (Rs bn) / (\$ mn)	123/1,629
6m avg traded value (Rs mn)	126
52 Week high / low	Rs 1,205/562

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	46.4	(15.0)	(12.4)
Relative (%)	27.2	(2.0)	(5.6)

### SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	75.0	75.0
FIs & Local MFs	6.9	7.4
FPIs	16.8	16.3
Public & Others	1.3	1.3
Pledged Shares	0.0	0.0

Source : BSE

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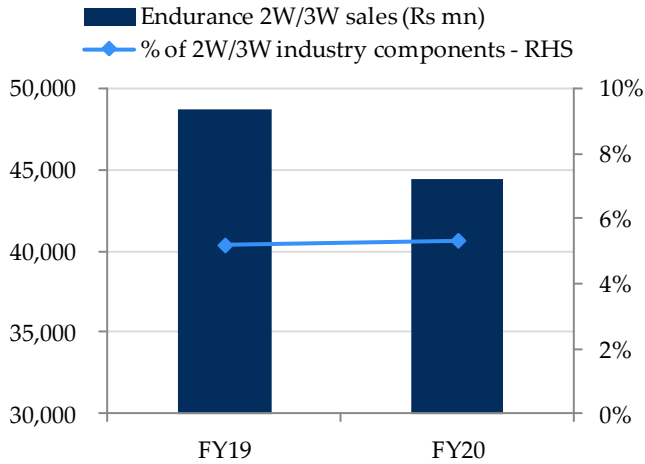
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# Endurance: Initiating Coverage

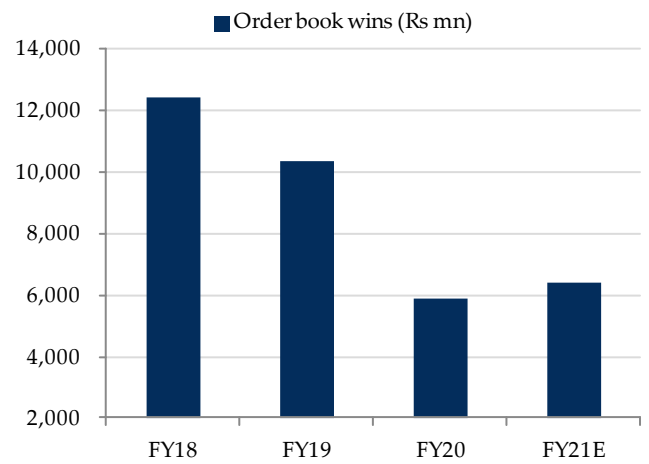
## Focus charts

### Endurance is the largest parts supplier to the 2W/3W segment



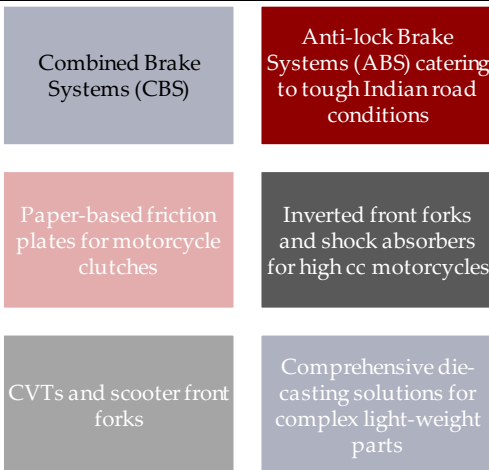
Source: Company, HSIE Research

### New order wins are expected to lead to further increase in value of components supplied



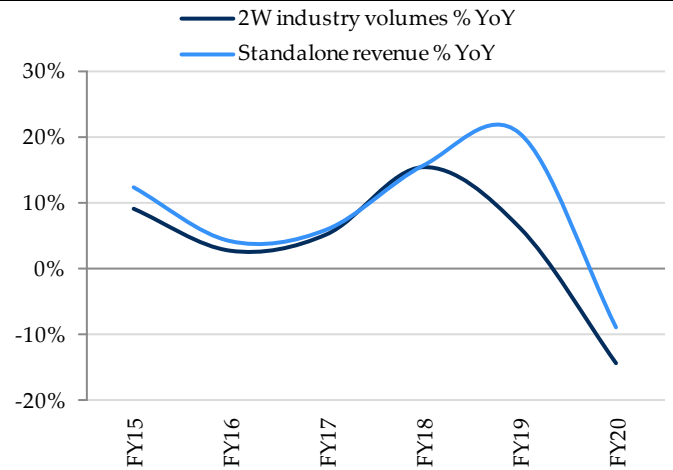
Source: Company, HSIE Research

### Endurance is focusing on value-add products



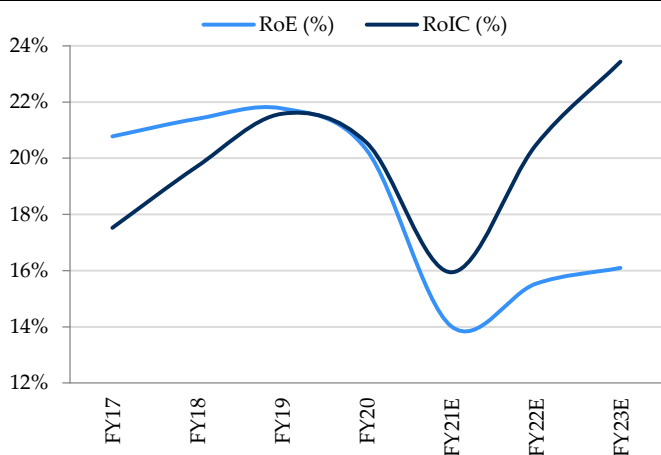
Source: Company, HSIE Research

### The supplier continues to grow ahead of the 2W market



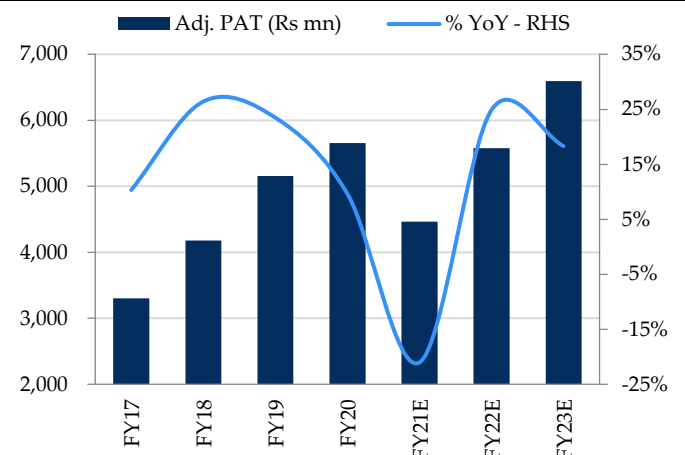
Source: Company, HSIE Research

### Endurance enjoys healthy return ratios



Source: Company, HSIE Research

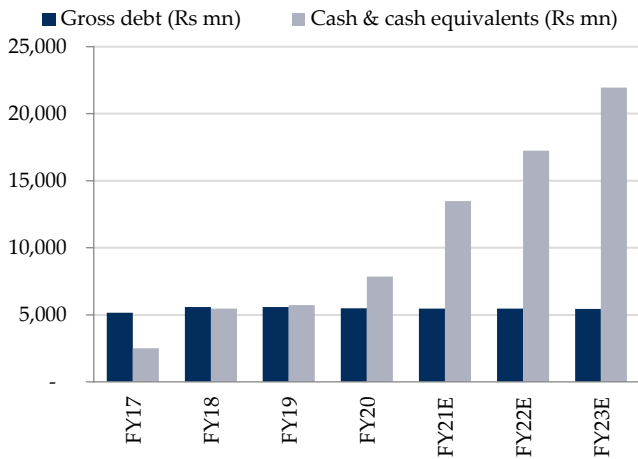
### Consolidated net profit to grow over FY22-23E



Source: Company, HSIE Research

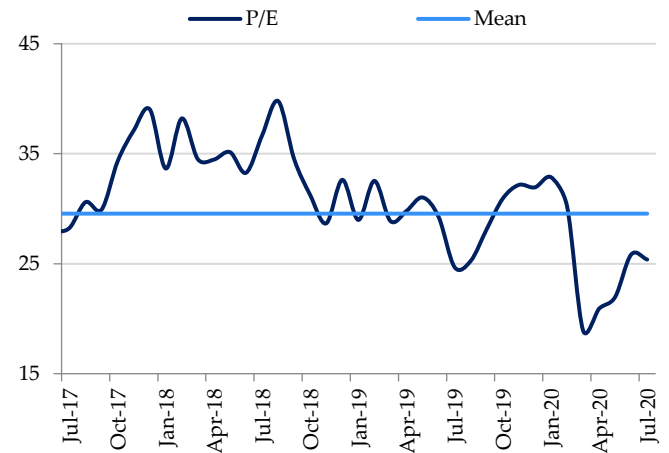
## Endurance: Initiating Coverage

### Endurance is a cash surplus company



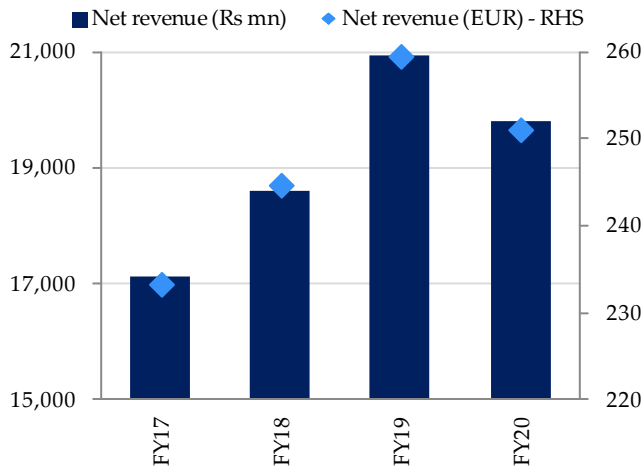
Source: Company, HSIE Research

### One year rolling forward P/E multiple band chart (x)



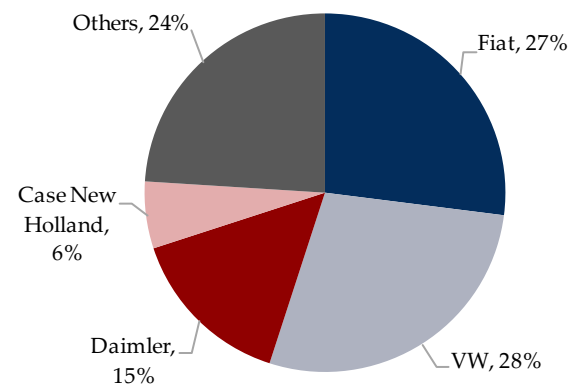
Source: Bloomberg, Company, HSIE Research

### Revenues from Europe are sustaining in an uncertain environment



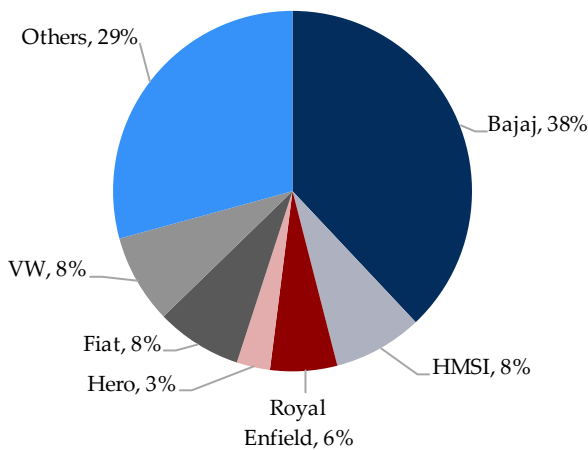
Source: Company, HSIE Research

### Diversified European business customer-mix



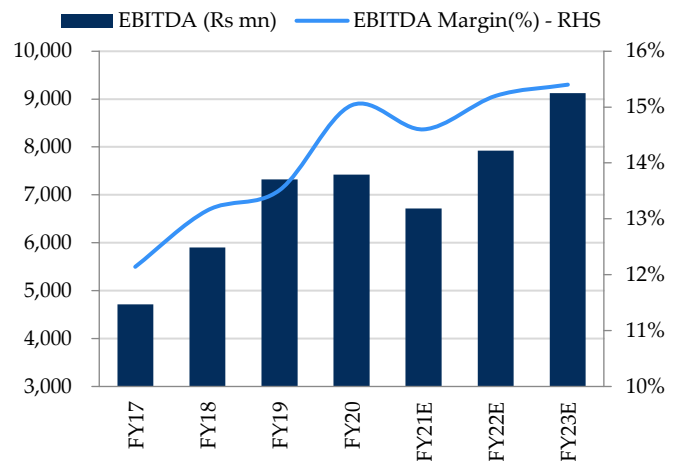
Source: Company, HSIE Research

### Endurance customer mix (Consolidated)



Source: Company, HSIE Research

### Standalone margins are in a healthy band of ~13-16%



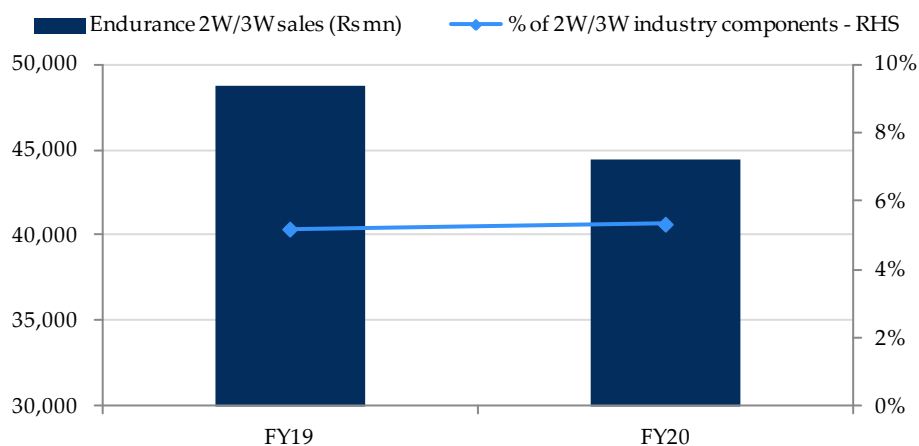
Source: Company, HSIE Research

### Gaining increased share of business in 2W/3W components

*Endurance's value of business in the components supplied to the 2W/3W industry is between 5-6% of the overall value, making it the largest supplier in this segment*

- Endurance supplies to almost every OEM in the segment, including Bajaj, Hero, TVS, Royal Enfield, and HMSI. Further, it produces multiple components, including aluminium machined castings, suspension, braking systems, and transmissions (clutches). The auto parts maker is a dominant entity in the components that it supplies. For instance, in suspension products, Endurance is 35-40% of the market; the company has a 25% share of hydraulic brakes, and in transmissions, the share is at 16%.
- In our view, Endurance's value of the business in the components supplied to the 2W/3W industry is between 5-6% of the overall value, making it the largest supplier in this segment.

#### Share of supplies in the 2W/3W segment

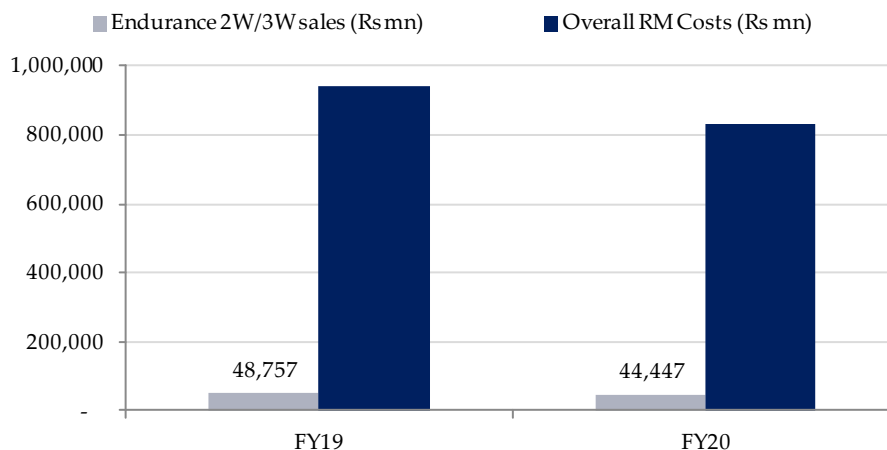


Source: Company, HSIE Research

- The value of supplies by Endurance as a proportion of the components utilized by the listed 2W/3W OEMs (Hero, Bajaj, etc.) as well as the unlisted entities (HMSI, etc) is significant.

#### Endurance Parts Supplies

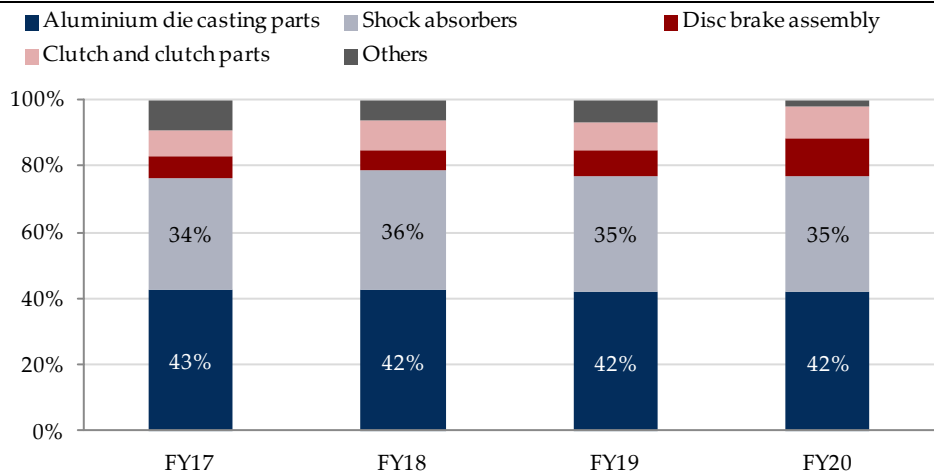
*The company supplies multiple components to all major OEMs*



Source: Company, HSIE Research

- The company derives ~42% of revenues from the castings segment and 35% from suspension components. For its key customer Bajaj Auto, the parts maker is well entrenched in the castings and suspension components and is now expanding into clutches and brakes segment.

**Product mix (%)**



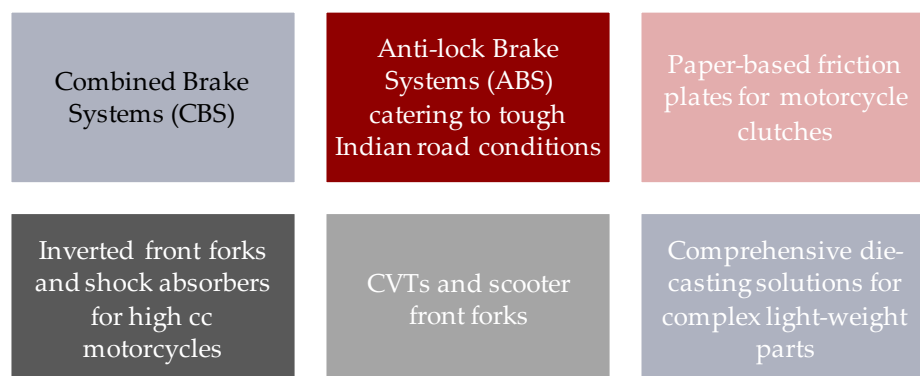
*Aluminium die casting and suspension components contribute significantly to the revenue mix*

Source: Company, HSIE Research

- **Moving up the value curve:** As Endurance expands into new product segments across brakes (ABS in collaboration with BWI, acquisition of Grimeca Europe), clutches (post the acquisition of Adler), fully machined aluminium castings, and higher value add suspension products, it is likely to expand its share further and move up the value chain.
- The company is focusing on value-add products including ABS brakes, CVT transmissions for scooters, front forks, paper-based clutches, and complete machined die-cast products, amongst others.

*The company is enhancing its capabilities by developing higher value-added products*

**Focus on new technologies for higher value-added products:**

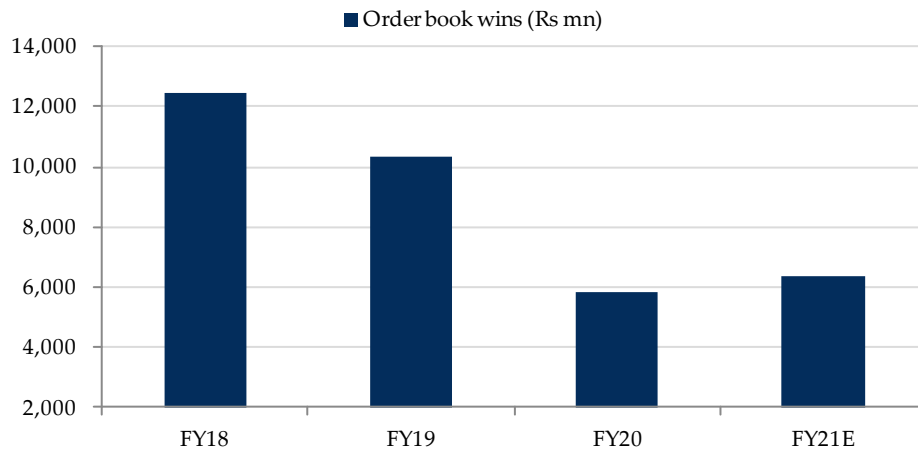


Source: Company, HSIE Research

- Endurance has been consistently winning new orders from customers across product segments. The RFQs for FY21E are at Rs 12.8bn, of which ~50% are expected to be converted to new orders. We believe that the company can add another 50bps -75bps to the overall value of components supplied to the industry, based on its expanding capabilities – foray into CVTs, ABS brakes, further inroads in premium bikes and fully machined castings.

*Endurance can gain an additional 50-75bps in value of the 2W/3W component supplies, based on its current RFQs and robust product pipeline*

**New order book wins**



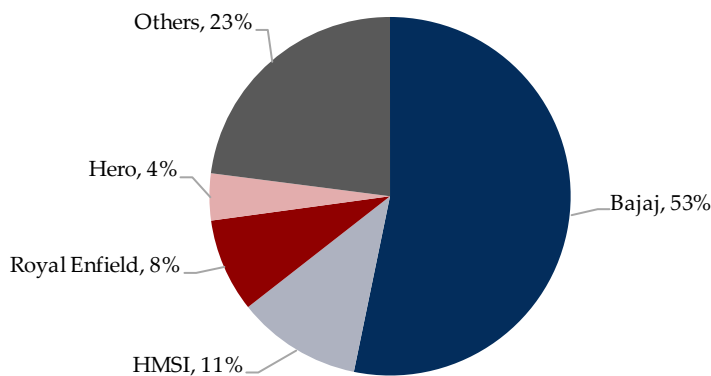
Source: Company, HSIE Research

**Making further inroads into the premium segment**

- The company already caters to this segment with its supplies to Bajaj Auto and Royal Enfield and exports of high-end front forks to KTM (401-790cc bikes), amongst others. Endurance has had a collaboration with KTM Components since 2008 and has benefitted from its technology tie-up with the Austrian partner. We believe the premium segment accounts for ~1/5<sup>th</sup> of Endurance's India revenues. As the company expands into new products in the 200cc+ category, this share is expected to rise further.

*As the company is now expanding into new products in the 200cc+ category, its share in the premium segment is expected to rise further*

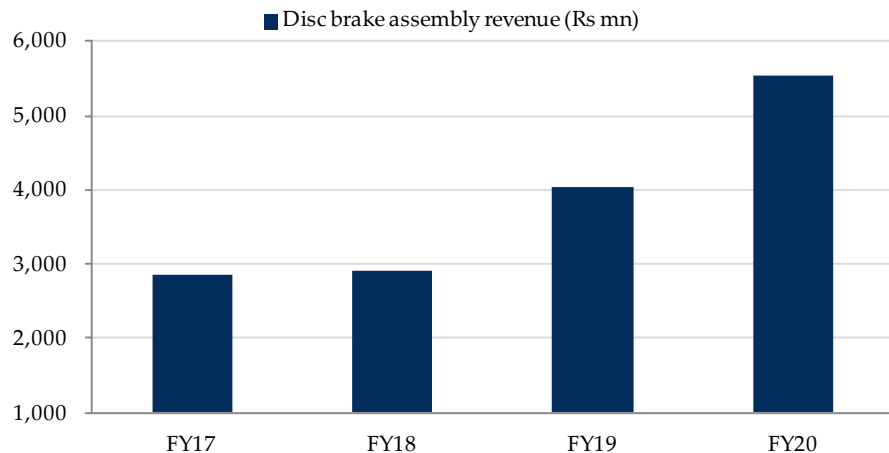
**OEM-wise revenue mix**



Source: Company, HSIE Research

- **Brake discs:** The auto parts supplier manufactures brake discs to Royal Enfield, Bajaj – sales have risen, post the mandatory safety regulations in 2018, which mandated bikes above 150cc to use ABS.

#### Disc brake assembly revenue (Rs mn)



Source: Company, HSIE Research

*The ABS brake system supplies is in collaboration with BWI, America*

*The company recently acquired its technology partners in Europe – Adler (transmissions /clutches) and Grimeca (brake systems) and will manufacture these components for premium bikes.*

*Endurance is expanding into fully machined castings that can be used directly in the product assembly by the OEMs*

- **ABS supplies to commence in CY21:** Endurance will begin supplies to the ABS segment from 4QFY21 - the current order book is for between 250k-400k units, which implies a value of ~Rs 1bn. (2% of sales), and this would scale up further as the parts maker is in talks with multiple OEMs for providing this technology. The company has a technology tie-up with BWI, America, for this high-end technology. In India, the company will compete with Bosch and other global parts suppliers for the same.
- **Fully machined castings:** Endurance supplies aluminium castings to Bajaj and will increasingly supply castings to Royal Enfield as its new plant in Vallam in the south is commissioned in 2HFY21. The auto parts maker is expanding into fully machined castings that can be used directly in the product assembly by the OEMs.
- **Expanding into clutch and brake assemblies with the acquisitions:** The auto parts company recently acquired its technology partners in Europe – Adler (transmissions /clutches) and Grimeca (brake systems). The company has had a relationship with these suppliers spanning almost two decades. These Italian companies specialise in brake components such as master cylinders, brake callipers, and braking systems as well as clutches, primarily for high-end bikes. With these acquisitions, Endurance will further develop capabilities for premium 200cc+ bikes.
- **Suspension components:** Endurance already supplies suspension components, including front forks and rear mono-shock absorbers, to high-end bikes of Bajaj, Royal Enfield, and Harley (due to the KTM collaboration) and will increase its presence further.

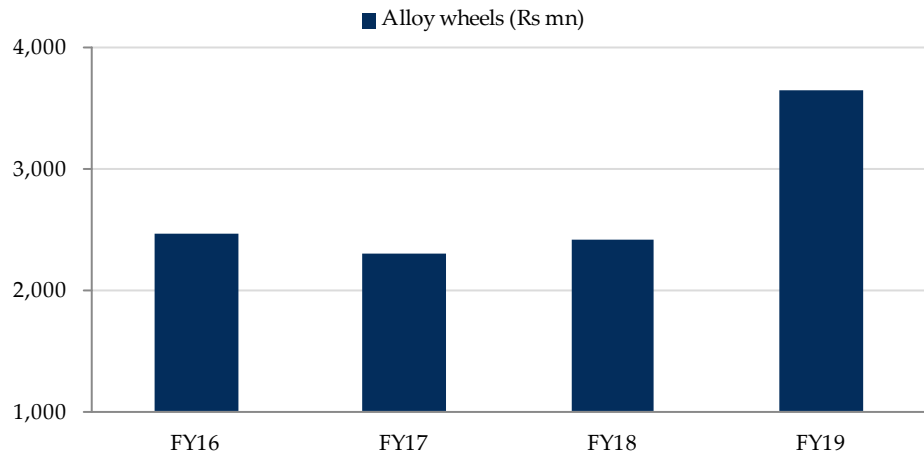


### To gain from the substitution of imports from China

- The management believes that as OEMs substitute Chinese imports, the local production of aluminium alloy wheels will expand in India. Endurance currently has a capacity of 1.2mn sets (2.4m wheels) and derives over Rs 3bn turnover from this segment. Based on the evolving scenario, the company is considering to expand its capacity.

#### Endurance – Alloy Wheels Turnover

*The local production of aluminium alloy wheels is expected to benefit under the import substitution initiatives*



Source: Company, HSIE Research

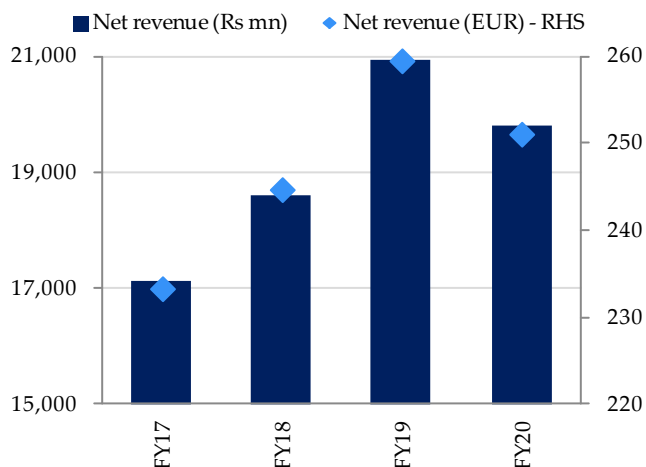
- Endurance is also winning orders in the combined braking system (CBS) segment as OEMs want to de-risk from Chinese suppliers. The order includes the complete brake system including the disk, master cylinder, and the calliper.
- The company has begun exports of shock absorbers for the South American and South Asia requirements of Honda, which were earlier catered by the Chinese.

### European business is migrating towards EV/hybrids

*Endurance Europe is gradually shifting its mix towards next generation models (EV/hybrids) and has orders for Euro 110mn in this segment*

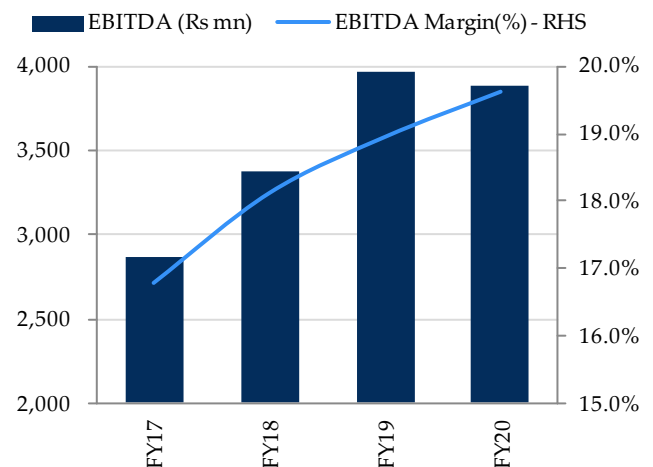
- In Europe, Endurance is gradually shifting its mix towards next-generation models. The company has won orders worth Euro 110mn for hybrid and electric vehicles. Of this, Euro 80m is towards hybrid vehicle parts, and Euro 30m is for EVs. The primary customer is Volkswagen and group companies, including Audi and Porsche. The parts maker is in talks for additional orders worth EUR 45mn.

#### Europe revenues



Source: Company, HSIE Research

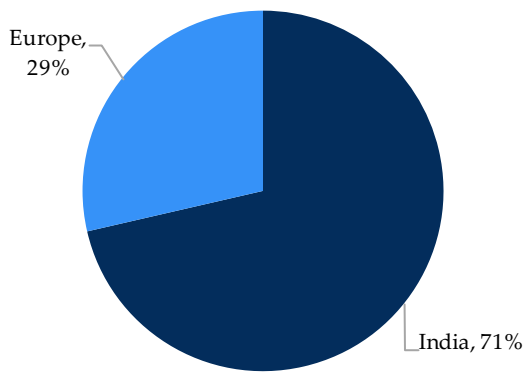
#### Europe business EBITDA margin



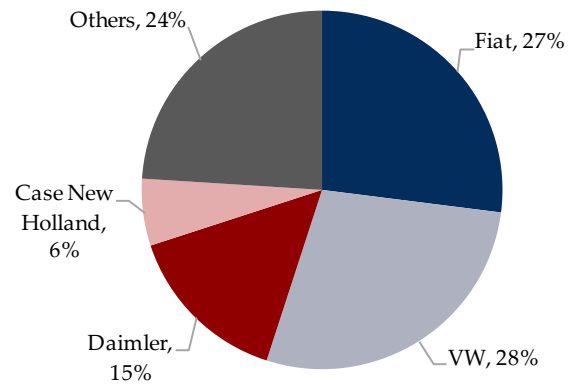
Source: Company, HSIE Research

- In the European operations, the company has been able to de-risk away from Fiat. The contribution of FCA has reduced from 70% of revenues to 27% currently. VW group is now the largest contributor to sales at 28%, and Daimler is ~15%. Thus, the company has been able to sustain revenues amidst a challenging environment. The European business accounts for 29% of the consolidated revenue.

**Geographical mix (%)**



**Europe OEM-wise revenue mix (%)**



Source: Company, HSIE Research

Source: Company, HSIE Research

**Key assumptions for Europe business**

Rs mn	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	17,110	18,613	20,930	19,791	18,406	20,247	22,474
% YoY	9%	9%	12%	-5%	-7%	10%	11%
EBITDA	2,873	3,373	3,968	3,885	3,497	3,989	4,472
EBITDA Margin (%)	16.8%	18.1%	19.0%	19.6%	19.0%	19.7%	19.9%
% YoY	20.2%	17.4%	17.6%	-2.1%	-10.0%	14.1%	12.1%

Source: Company, HSIE Research

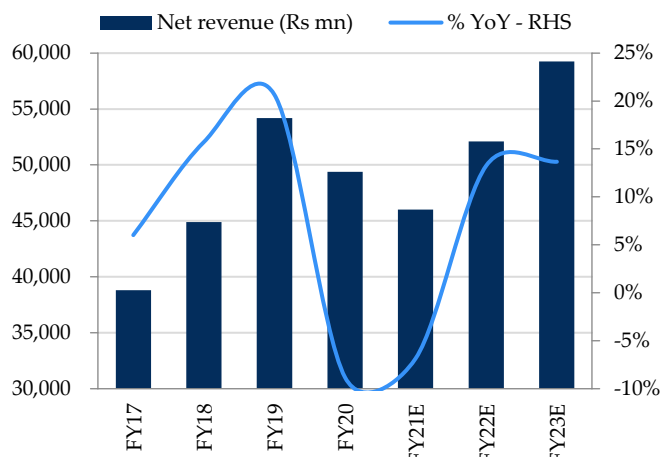
## Standalone financials

- We believe the India business will continue to outpace the broader industry, driven by new order wins across products/customers. We expect the company to gain a further 50-75bps in the value of components supplied to the industry.

### Key assumptions

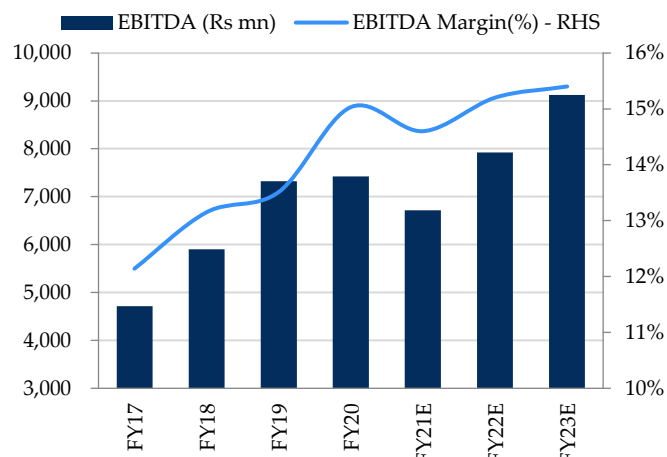
(Rs mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenue from:</b>							
Aluminium die casting	18,290	19,616	22,741	20,753	19,093	21,384	24,185
Shock absorbers (suspension)	14,378	16,738	19,065	17,294	16,084	18,175	20,719
Brake assembly	2,856	2,910	4,042	5,534	5,257	6,099	6,952
Clutch (transmission)	3,304	4,033	4,609	4,842	4,600	5,336	6,094
Components and others	3,974	2,883	3,718	962	972	1,117	1,285
<b>Gross Revenue</b>	<b>42,802</b>	<b>46,180</b>	<b>54,174</b>	<b>49,386</b>	<b>46,006</b>	<b>52,111</b>	<b>59,236</b>
Excise duty	4,003	1,279	-	-	-	-	-
<b>Net Revenue</b>	<b>38,798</b>	<b>44,901</b>	<b>54,174</b>	<b>49,386</b>	<b>46,006</b>	<b>52,111</b>	<b>59,236</b>
<b>% YoY</b>	<b>6%</b>	<b>16%</b>	<b>21%</b>	<b>-9%</b>	<b>-7%</b>	<b>13%</b>	<b>14%</b>
EBITDA	4,710	5,904	7,320	7,423	6,717	7,921	9,122
EBITDA margin (%)	12.1%	13.1%	13.5%	15.0%	14.6%	15.2%	15.4%
<b>Adj. net profit</b>	<b>2,215</b>	<b>2,985</b>	<b>3,787</b>	<b>4,277</b>	<b>3,504</b>	<b>4,563</b>	<b>5,361</b>

### India net revenue: Endurance will continue to outperform the broader 2W/3W industry



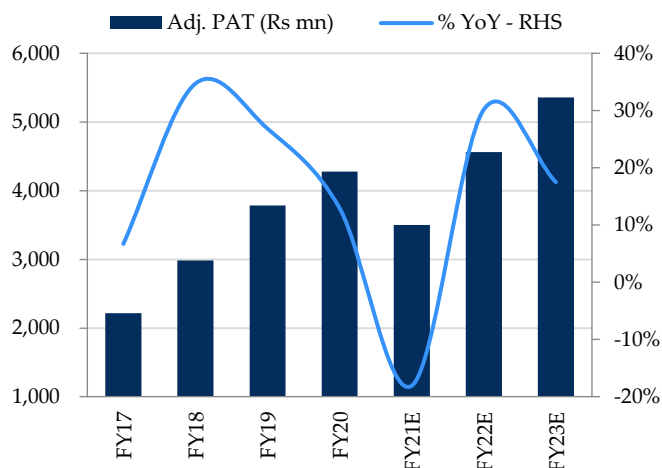
Source: Company, HSIE Research

### EBITDA margins will sustain due to a richer product mix



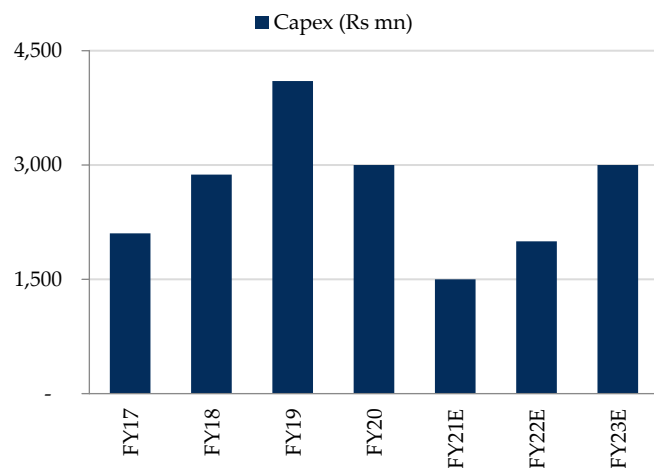
Source: Company, HSIE Research

### Standalone adjusted net profit



Source: Company, HSIE Research

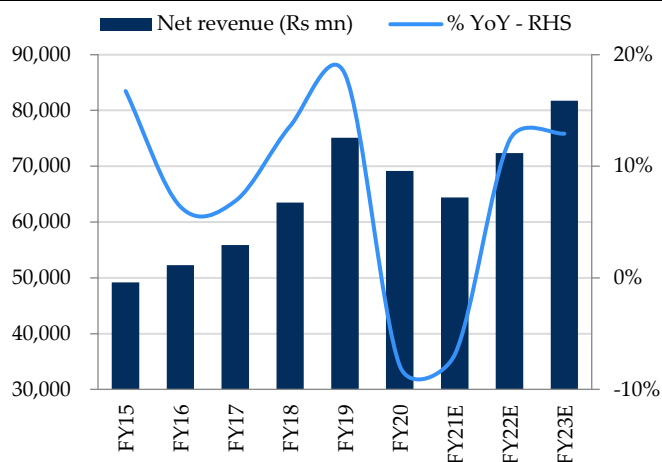
### Capex spends in FY21E have been scaled down



Source: Company, HSIE Research

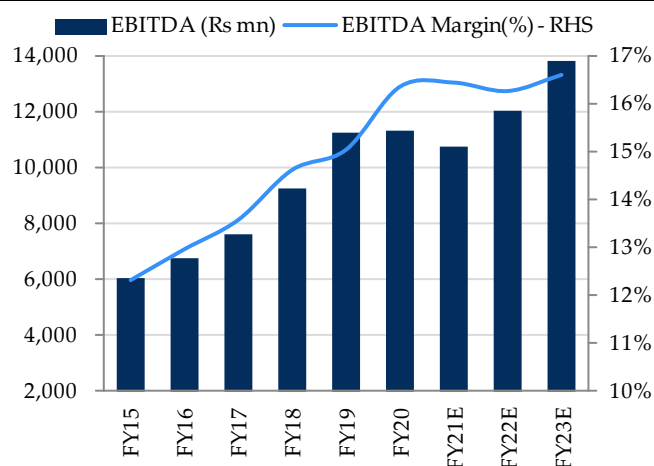
## Consolidated financials

### Net revenue



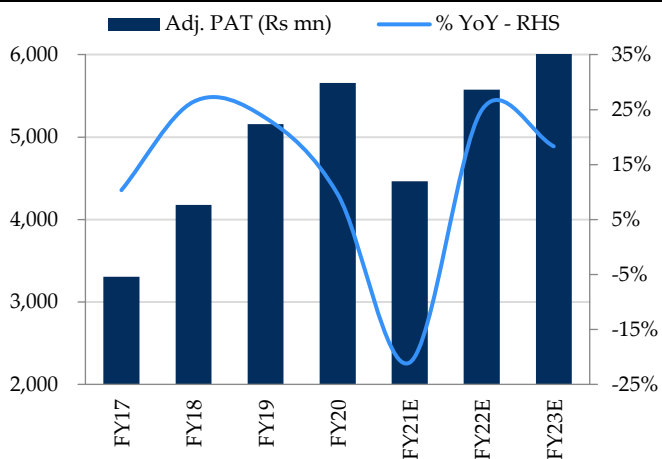
Source: Company, HSIE Research

### EBITDA margins to sustain



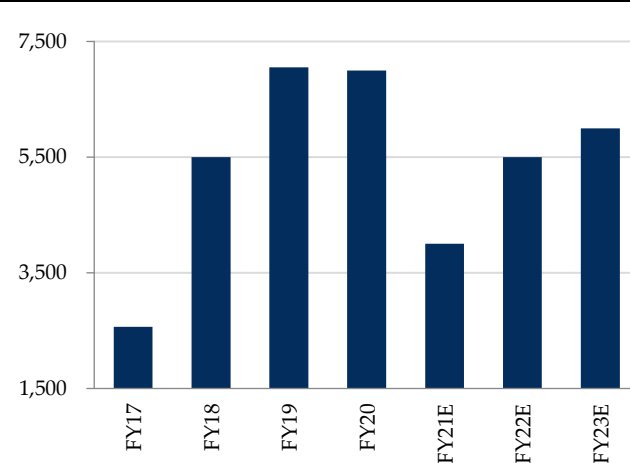
Source: Company, HSIE Research

### Consolidated PAT



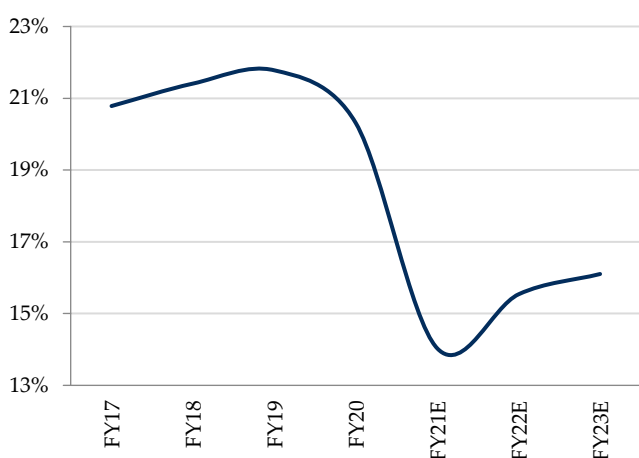
Source: Company, HSIE Research

### Capital expenditure (Rs mn)



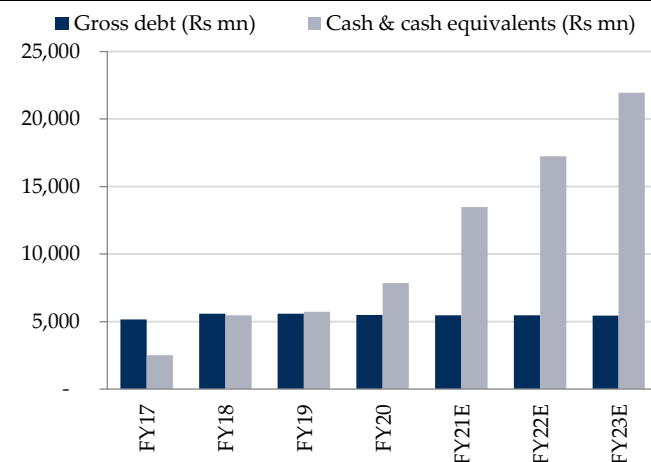
Source: Company, HSIE Research

### ROEs - Endurance enjoys healthy return ratios



Source: Company, HSIE Research

### Cash and equivalents

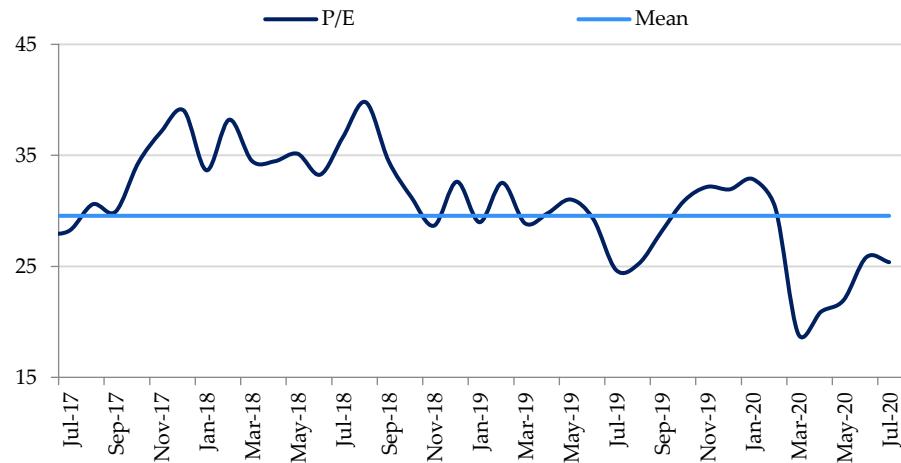


Source: Company, HSIE Research

## Target price, valuation, and risks

- We set a target price of Rs 1,040 at 25x Jun-22 EPS, which is inline with the average multiple over the past year (which has sustained amidst the COVID outbreak). The valuations factor in mid teen ROEs and Endurance's growth initiatives. The stock multiples have moderated since the listing, as the business has ramped up (profits have almost doubled since 2016) and growth rates are normalising on an elevated base.

### One year rolling forward P/E band chart



Source: Bloomberg, Company, HSIE Research

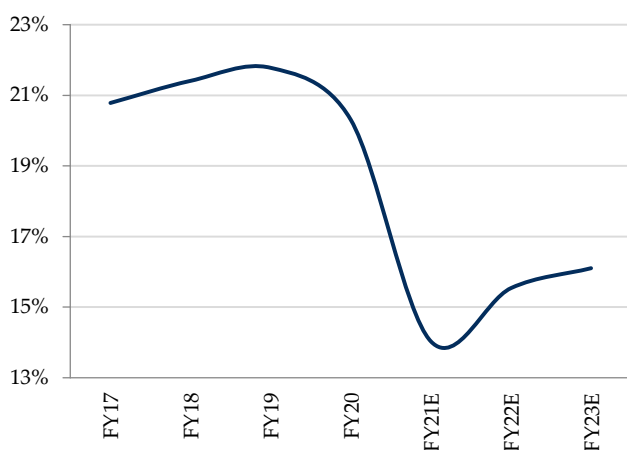
- Endurance continues to enjoy high ROEs/ROICs as the company has healthy profit margins and asset turns of ~2x.

### Standalone business DuPont analysis:

	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
NP Margin	5.7	6.0	6.6	8.7	7.6	8.8	9.1
Sales/Assets	2.3	2.3	2.3	2.0	1.7	1.7	1.7
Assets/Equity	1.1	1.1	1.1	1.1	1.1	1.1	1.0
<b>ROE (%)</b>	<b>14.2</b>	<b>15.2</b>	<b>17.2</b>	<b>18.5</b>	<b>13.6</b>	<b>15.6</b>	<b>15.9</b>

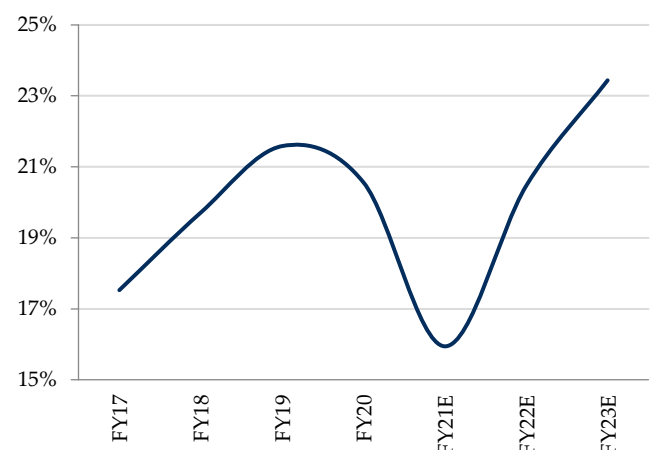
Source: Company, HSIE Research

### Consolidated RoE (%)



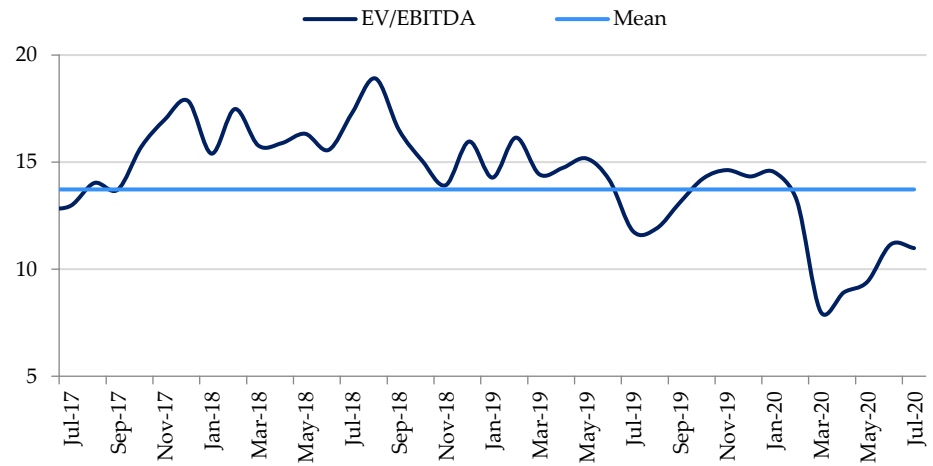
Source: Company, HSIE Research

### Consolidated RoIC (%)



Source: Company, HSIE Research

## One year rolling forward EV/EBITDA band chart



Source: Bloomberg, Company, HSIE Research

- **Key risks:** The main risks to our call are: (1) a delayed recovery in 2W sales in India and Europe; (2) any pushback in receipt of new orders by the Indian OEMs.

## Peer set comparison

	Mcap (Rs bn)	CMP (Rs/sh)	Reco	TP (Rs)	Adj EPS (Rs/sh)			P/E (x)			RoE (%)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
<b>Endurance</b>	<b>123</b>	<b>872</b>	<b>BUY</b>	<b>1,040</b>	<b>31.7</b>	<b>39.6</b>	<b>46.9</b>	<b>27.5</b>	<b>22.0</b>	<b>18.6</b>	<b>14.0</b>	<b>15.5</b>	<b>16.1</b>
Subros	11	165	ADD	190	5.7	11.1	-	29.1	14.8	-	19.5	25.3	-
Bosch*	378	12,814	NR	-	353.9	461.2	472.3	36.2	27.8	27.1	11.2	13.0	-
Bharat Forge*	177	380	NR	-	7.6	15.5	19.5	50.2	24.5	19.5	7.9	13.5	15.1
Exide Industries*	132	155	NR	-	8.5	10.4	12.0	18.4	15.0	12.9	10.9	12.2	13.0
Wabco*	131	6,917	NR	-	69.3	108.4	-	99.9	63.8	-	6.7	9.6	-
Amara Raja*	117	683	NR	-	33.7	41.3	48.2	20.3	16.5	14.2	8.4	10.0	13.2
Timken*	77	1,024	NR	-	28.3	33.4	-	36.2	30.6	-	14.0	13.6	-

Source: HSIE Research. \*Bloomberg consensus, NR= Not rated

## Annexure – Endurance's recent acquisitions:

### Grimeca:

- Grimeca is an advanced service company involved in designing and developing new braking products for motorcycle and light-vehicles, including 'co-design' with OEM customers. Since 2015, Grimeca has been a technology provider for braking solutions to Endurance Tech.
- Grimeca is a leading supplier for global motorcycle brands, which it says is thanks to its expertise and skills in the manufacture of light-alloy cast components for frames, integral wheels, brake master cylinders and callipers, hubs, braking systems and state-of-the-art brake discs made of stainless steel, or what is referred to as 'high-risk' products. The company says its customer base includes world-renowned marquee brands such as – Aprilia, Benelli, Betamotor, BMW, Derbi, Ducati, Fantic Motor, Moto Guzzi, Honda, Husqvarna, Kymco, KTM, Mbk, Mv Agusta, Peugeot, Piaggio, Rieju, Suzuki, and Yamaha, among others.
- The Italian company has developed manufacturing technologies in the field of steel and aluminium components, which it says bring competitive advantages to customers' projects while ensuring low costs, stable and repeatable production cycles, and the achievement of safety and performance targets of the project. This also is the case of light alloy aluminium motorcycle components, for which Grimeca says its technology, compared with standard production cycles, allows for a strong simplification of some production phases or even for the elimination of some phases of the cycle itself.
- The acquisition has been completed for a consideration of 2.25 million euro (Rs 186mn), which includes 0.9 million euro (Rs 74mn) for 100% in Grimeca and 1.35 million euro (Rs 110 mn) for the technical know-how and intellectual property rights of braking systems and chassis components, and the "G Grimeca" brand. Endurance Technologies expects the acquisition to provide impetus to the growth opportunities for its braking business in India, both for domestic and export markets.

### Adler, Italy:

- Endurance Overseas Srl, Italy (EOSrl), a subsidiary of Endurance Technologies and the special purpose vehicle for strategic overseas investments, has acquired the controlling equity stake of 99% for 3.5 million euros (Rs 290 mn) in Adler SpA. Adler is a leader in systems solutions for clutches, gears, and friction plates with a niche in R&D, engineering services and product development for OEM customers in Europe. The Italian supplier is well-known for its design and production of clutches, gears, blow-by valves, intake manifolds, reed valves, SAS valves, tyre locks, rubber dampers, and vibration dampers for the automotive market.
- The acquisition of Adler, which has been a long-term technology provider to the Endurance Group, is a strategic buy because it gives the Indian Tier 1 major complete access to Adler's technical know-how and intellectual property rights. Furthermore, this acquisition would also provide future growth opportunities for Endurance's domestic market business in India and export opportunities too.
- Adler, which has a manufacturing plant located in Rovereto, Italy, recorded a revenue (in local GAAP) of around 6.4 million euros (Rs 53 crore) in CY2019 from the sale of manufactured products and other income relating to transmission systems.

## Financials

### Consolidated Income Statement

(Rs mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>55,909</b>	<b>63,514</b>	<b>75,105</b>	<b>69,177</b>	<b>64,412</b>	<b>72,358</b>	<b>81,710</b>
<i>Growth (%)</i>	6.9	13.6	18.2	(7.9)	(6.9)	12.3	12.9
Material Expenses	32,265	36,583	43,495	37,352	34,966	39,291	44,355
Employee Expenses	5,455	5,809	6,527	6,773	6,580	6,817	7,779
Other Operating Expenses	10,605	11,844	13,795	13,744	12,653	14,340	15,981
<b>Total Expenses</b>	<b>48,325</b>	<b>54,236</b>	<b>63,817</b>	<b>57,869</b>	<b>54,198</b>	<b>60,448</b>	<b>68,115</b>
<b>EBITDA</b>	<b>7,583</b>	<b>9,278</b>	<b>11,288</b>	<b>11,308</b>	<b>10,214</b>	<b>11,910</b>	<b>13,595</b>
<i>EBITDA Margin (%)</i>	13.6	14.6	15.0	16.3	15.9	16.5	16.6
<i>EBITDA Growth (%)</i>	12.0	22.3	21.7	0.2	(9.7)	16.6	14.1
Depreciation	2,905	3,216	3,762	4,143	4,618	4,927	5,394
<b>EBIT</b>	<b>4,678</b>	<b>6,062</b>	<b>7,526</b>	<b>7,165</b>	<b>5,596</b>	<b>6,983</b>	<b>8,201</b>
Other Income (Including EO Items)	291	(33)	62	476	481	529	603
Interest	322	235	257	175	140	126	122
<b>PBT</b>	<b>4,646</b>	<b>5,793</b>	<b>7,331</b>	<b>7,465</b>	<b>5,936</b>	<b>7,385</b>	<b>8,681</b>
Tax (Incl Deferred)	1,343	1,886	2,381	1,810	1,472	1,809	2,084
Minority Interest	-	-	-	-	-	-	-
<b>RPAT</b>	<b>3,303</b>	<b>3,908</b>	<b>4,950</b>	<b>5,655</b>	<b>4,464</b>	<b>5,576</b>	<b>6,598</b>
EO (Loss) / Profit (Net Of Tax)	-	(269)	(208)	-	-	-	-
<b>APAT</b>	<b>3,303</b>	<b>4,176</b>	<b>5,158</b>	<b>5,655</b>	<b>4,464</b>	<b>5,576</b>	<b>6,598</b>
<i>APAT Growth (%)</i>	10.3	26.4	23.5	9.6	(21.1)	24.9	18.3
<b>Adjusted EPS (Rs)</b>	<b>23.5</b>	<b>29.7</b>	<b>36.7</b>	<b>40.2</b>	<b>31.7</b>	<b>39.6</b>	<b>46.9</b>
<i>EPS Growth (%)</i>	10.3	26.4	23.5	9.6	(21.1)	24.9	18.3

Source: Company, HSIE Research

### Consolidated Balance Sheet

(Rs mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
<b>SOURCES OF FUNDS</b>							
Share Capital - Equity	1,407	1,407	1,407	1,407	1,407	1,407	1,407
Reserves	15,887	20,322	24,240	28,654	32,190	36,786	42,372
<b>Total Shareholders Funds</b>	<b>17,293</b>	<b>21,729</b>	<b>25,647</b>	<b>30,060</b>	<b>33,596</b>	<b>38,193</b>	<b>43,778</b>
Minority Interest	-	-	-	-	-	-	-
Long Term Debt	3,422	3,803	3,464	4,021	3,981	3,941	3,901
Short Term Debt	1,736	1,783	2,120	1,461	1,490	1,520	1,550
<b>Total Debt</b>	<b>5,158</b>	<b>5,586</b>	<b>5,584</b>	<b>5,482</b>	<b>5,471</b>	<b>5,461</b>	<b>5,452</b>
Net Deferred Taxes	(182)	(103)	(150)	(242)	(247)	(252)	(257)
<b>TOTAL SOURCES OF FUNDS</b>	<b>22,270</b>	<b>27,212</b>	<b>31,081</b>	<b>35,300</b>	<b>38,820</b>	<b>43,402</b>	<b>48,973</b>
<b>APPLICATION OF FUNDS</b>							
Net Block	14,982	16,932	20,112	24,439	22,351	22,924	23,530
Goodwill	1,355	1,577	1,520	1,624	1,657	1,690	1,724
CWIP & Intangible assets under development	438	592	1,178	1,260	1,285	1,310	1,337
Investments	10	10	13	12	83	125	128
Other Non-current Assets	2,122	2,680	3,072	1,568	1,600	1,632	1,664
<b>Total Non-current Assets</b>	<b>18,907</b>	<b>21,792</b>	<b>25,894</b>	<b>28,903</b>	<b>26,975</b>	<b>27,681</b>	<b>28,383</b>
Cash & Equivalents	2,516	5,476	5,727	7,858	13,474	17,232	21,952
Inventories	4,438	4,939	5,400	5,501	5,122	5,754	6,498
Debtors	7,609	9,688	9,251	6,727	6,264	7,037	7,946
Other Current Assets	1,453	1,398	1,277	1,389	1,417	1,446	1,474
<b>Total Current Assets</b>	<b>16,016</b>	<b>21,501</b>	<b>21,655</b>	<b>21,476</b>	<b>26,277</b>	<b>31,468</b>	<b>37,871</b>
Creditors	8,642	11,284	11,735	10,662	9,928	11,153	12,594
Other Current Liabilities & Provns	4,011	4,797	4,734	4,416	4,504	4,594	4,686
<b>Total Current Liabilities</b>	<b>12,653</b>	<b>16,081</b>	<b>16,468</b>	<b>15,078</b>	<b>14,432</b>	<b>15,747</b>	<b>17,280</b>
<b>Net Current Assets</b>	<b>3,363</b>	<b>5,420</b>	<b>5,187</b>	<b>6,397</b>	<b>11,845</b>	<b>15,721</b>	<b>20,591</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>22,270</b>	<b>27,212</b>	<b>31,081</b>	<b>35,300</b>	<b>38,820</b>	<b>43,402</b>	<b>48,973</b>

Source: Company, HSIE Research



## Consolidated Cash Flow

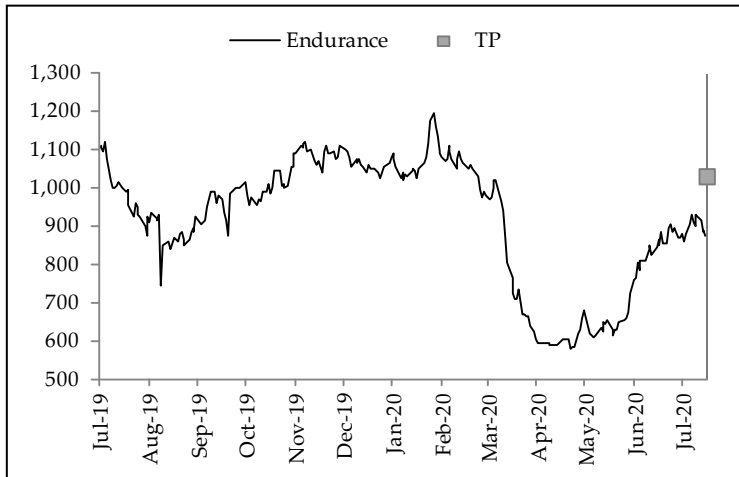
(Rs mn)	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
Reported PBT	4,646	5,793	7,331	7,465	5,936	7,385	8,681
Non-operating & EO Items	(291)	33	(62)	(476)	(481)	(529)	(603)
Interest Expenses	322	235	257	175	140	126	122
Depreciation	2,905	3,216	3,762	4,143	4,618	4,927	5,394
Working Capital Change	(1,849)	903	484	920	168	(118)	(149)
Tax Paid	(1,340)	(1,807)	(2,428)	(1,902)	(1,477)	(1,814)	(2,089)
<b>OPERATING CASH FLOW ( a )</b>	<b>4,395</b>	<b>8,375</b>	<b>9,344</b>	<b>10,326</b>	<b>8,905</b>	<b>9,977</b>	<b>11,357</b>
Capex	(2,778)	(5,542)	(7,470)	(8,656)	(2,588)	(5,559)	(6,060)
Free Cash Flow (FCF)	1,617	2,832	1,874	1,669	6,318	4,418	5,297
Investments	166	(559)	(394)	1,505	(103)	(74)	(35)
Non-operating Income	291	(33)	62	476	481	529	603
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,321)</b>	<b>(6,134)</b>	<b>(7,802)</b>	<b>(6,676)</b>	<b>(2,210)</b>	<b>(5,104)</b>	<b>(5,492)</b>
Debt Issuance/(Repaid)	(874)	428	(2)	(102)	(11)	(10)	(9)
Interest Expenses	(322)	(235)	(257)	(175)	(140)	(126)	(122)
FCFE	421	3,025	1,614	1,392	6,166	4,282	5,166
Share Capital Issuance	(86)	1,203	(103)	(313)	(0)	-	-
Dividend	(422)	(675)	(928)	(928)	(928)	(979)	(1,013)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1,704)</b>	<b>720</b>	<b>(1,291)</b>	<b>(1,519)</b>	<b>(1,080)</b>	<b>(1,115)</b>	<b>(1,144)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>370</b>	<b>2,961</b>	<b>251</b>	<b>2,131</b>	<b>5,616</b>	<b>3,758</b>	<b>4,721</b>
Closing Cash & Equivalents	2,516	5,476	5,727	7,858	13,474	17,232	21,952

## Key Ratios

	FY17	FY18	FY19	FY20P	FY21E	FY22E	FY23E
<b>PROFITABILITY (%)</b>							
GPM	42.3	42.4	42.1	46.0	45.7	45.7	45.7
EBITDA Margin	13.6	14.6	15.0	16.3	15.9	16.5	16.6
EBIT Margin	8.4	9.5	10.0	10.4	8.7	9.7	10.0
APAT Margin	5.9	6.6	6.9	8.2	6.9	7.7	8.1
RoE	20.8	21.4	21.8	20.3	14.0	15.5	16.1
RoIC (or Core RoCE)	17.5	19.7	21.6	20.6	15.9	20.5	23.4
RoCE	15.6	16.5	17.4	16.4	11.4	12.8	13.5
<b>EFFICIENCY</b>							
Tax Rate (%)	28.9	32.6	32.5	24.2	24.8	24.5	24.0
Fixed Asset Turnover (x)	3.7	3.8	3.7	2.8	2.9	3.2	3.5
Inventory (days)	29.0	28.4	26.2	29.0	29.0	29.0	29.0
Debtors (days)	49.7	55.7	45.0	35.5	35.5	35.5	35.5
Other Current Assets (days)	9.5	8.0	6.2	7.3	8.0	7.3	6.6
Payables (days)	56.4	64.8	57.0	56.3	56.3	56.3	56.3
Other Current Liab & Provsns (days)	26.2	27.6	23.0	23.3	25.5	23.2	20.9
Cash Conversion Cycle (days)	5.5	(0.3)	(2.6)	(7.7)	(9.2)	(7.6)	(6.1)
Debt/EBITDA (x)	0.3	0.0	(0.0)	(0.2)	(0.8)	(1.0)	(1.2)
Net D/E (x)	0.2	0.0	(0.0)	(0.1)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	14.5	25.8	29.2	40.9	39.9	55.3	67.0
<b>PER SHARE DATA (Rs)</b>							
EPS	23.5	29.7	36.7	40.2	31.7	39.6	46.9
CEPS	44.1	50.6	61.9	69.7	64.6	74.7	85.2
Dividend	2.5	4.0	5.5	5.5	5.5	5.8	6.0
Book Value	123	154	182	214	239	272	311
<b>VALUATION</b>							
P/E (x)	37.1	29.4	23.8	21.7	27.5	22.0	18.6
P/BV (x)	7.1	5.6	4.8	4.1	3.7	3.2	2.8
EV/EBITDA (x)	16.5	13.2	10.9	10.6	11.2	9.3	7.8
EV/Revenues (x)	2.2	1.9	1.6	1.7	1.8	1.5	1.3
OCF/EV (%)	3.5	6.8	7.6	8.6	7.8	9.0	10.7
FCF/EV (%)	1.3	2.3	1.5	1.4	5.5	4.0	5.0
FCFE/Mkt Cap (%)	0.3	2.5	1.3	1.1	5.0	3.5	4.2
Dividend Yield (%)	0.3	0.5	0.6	0.6	0.6	0.7	0.7

Source: Company, HSIE Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
16-Jul-20	872	BUY	1,040

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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