September 26, 2022

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
Total	**122.0**	**122.0**	

**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 across almost all major two wheeler (2W) original equipment manufacturers (OEMs) in the domestic market and reputed four wheeler (4W) OEMs such as Stellantis NV (Stellantis), Volkswagen AG and Daimler AG in the European market. The ratings also factor in its diversified product offerings across aluminium diecasting, suspension, transmission and braking components, with the company eyeing further segmental diversification by venturing into driveshaft manufacturing and battery management systems (BMS). 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 on account of minimal dependence over the external borrowings as reflected by negative net debt on the consolidated level for a third consecutive year in FY2022. ICRA expects ETL's revenues to register healthy revenue growth over the 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. 880 crore on the consolidated level, and healthy quantum of undrawn bank lines.

The rating strengths are partially offset by client concentration risks with respect to Bajaj Auto Limited (BAL) in the domestic market, albeit on a reducing trend, and inherent risks associated with cyclicality of the global automotive industry, given its limited presence in the after-market segment. Moreover, pressure on ETL's margins as visible in FY2022 and Q1 FY2023 is likely to continue over the near-term, given the inflationary environment, although company's efforts towards backward integration, product mix improvement and price negotiations with clients should help offset the same to some extent. While the increasing thrust towards electric vehicles (EV) worldwide could pose a challenge to the company's transmission products in the long run, comfort is drawn from 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. Accordingly, 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. The company has already invested in Maxwell, whose BMS is primarily for the EV segment. Overall, 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 and to increase backward integration are expected to support the profitability metrics, despite near-term inflationary pressures.

Key rating drivers and their description

Credit strengths

Among the largest Indian auto component manufacturers with long-standing relationships with reputed automotive OEMs; healthy wallet share with its key customers – With revenues to the tune of Rs. 7,549 crore at the consolidated level in FY2022, ETL is one of the largest automotive component manufacturers in India. Indian operations contributed 75% of total revenues and Europe contributed the rest in FY2022. Currently ETL supplies to all the major 2W OEMs in India and is a key supplier to BAL, Honda Motorcycle & Scooters India Limited (HMSI), Eicher Motors Limited (Eicher), and Hero MotoCorp Limited (HMCL). In Europe, ETL's key clientele includes Volkswagen AG, Stellantis, and Daimler AG. The company has benefited from long-standing relations with these OEMs, and has over the years focussed on improving the content per vehicle and wallet share with these OEMs, lending revenue visibility as well as improving growth prospects.

Diversified product mix with presence across aluminium die casting, suspension, braking and transmission segments – In India, ETL has a leading market share in supply of aluminium die casting components and is also amongst the top suppliers of suspension, transmission and braking products in the domestic 2W auto-component market. In addition to these four product segments that it has a strong presence in, the company ventured into manufacturing of driveshafts in the current fiscal, which would offer further diversification benefits. Further, it has also made inorganic investments over the recent past, aimed at improving its technological capabilities for transmission and brakes, while also aligning its business with the emerging EV environment through a BMS offering. In terms of automotive segments catered also, ETL has a diversified exposure, with Indian operations catering to 2W, 3W and passenger vehicle (PV) segments, whereas in Europe it derives majority of its revenue from PV segment.

Financial profile characterized by healthy capital structure and strong liquidity profile – ETL's financial profile is characterised by low gearing of 0.1 times, a negative net debt position and comfortable total debt to OPBDITA ratio of 0.4 times at the consolidated level as on March 31, 2022. 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. 880 crore as of March 31, 2022 at the consolidated level and healthy quantum of unutilised working capital limits as well. While the company would continue to invest in capacity enhancements as required, both in Indian and European operations, the same is expected to be funded from internal accruals, minimising its dependence on external borrowings and supporting its capital structure going forward as well.

Credit challenges

Significant albeit reducing customer concentration 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 40% of consolidated revenues and 53% of standalone revenues in FY2022. However, the share of revenues from BAL reduced from highs of 60% in the past through diversification initiatives undertaken by the company. In Europe, on the other hand, the company diversified its customer base with order wins with Volkswagen and Daimler, reducing revenue share of Stellantis (in Europe business) from highs of 60% to 26% in FY2022. Moreover, ETL's efforts to win new orders from customers other than BAL along with new ventures such as driveshaft manufacturing, non-automotive castings, etc. are expected to help reduce overall exposure towards these select key clients to a large extent.

Aluminium casting and transmission business exposed to electrification risk 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 increasing. In the domestic market, it has developed new components relevant to EV, and has secured business from EV OEMs both for existing as well as EV-related components. Further, ETL's recent acquisition of Maxwell Energy Systems Private Limited, which is engaged in manufacturing battery management systems (BMS), is expected to help it ramp up revenue contribution from EV products going forward. Nevertheless, ICRA expects EV penetration in India to increase only gradually and accordingly, overall impact of electrification on company's cash flows will not be material in the near to medium term.

Exposure to cyclicality and volatilities of domestic and overseas automotive markets; near-term pressure on margins likely given the inflationary environment – While ETL benefits from presence across different products and geographies, it is still plagued by inherent risks associated with cyclical nature of the automotive industry. Further, with the inflationary environment in India and Europe, amidst an unprecedented rise in raw material costs as well as energy tariffs and freight costs, the pressure on margins visible over recent quarters is likely to continue over the near term. The company also has presence in the aftermarket segment, but this presently constitutes less than 8% of consolidated sales. Increasing management focus to improve aftermarket presence, as articulated by the management, could aid in insulation of revenues against the cyclicality in the Indian and European automotive industries while also improving the overall profitability of the company.

Liquidity position: Strong

ETL continues to demonstrate **strong** liquidity position as evident from healthy cash flow generation from operations of Rs. 700-800 crore annually, cash and liquid balances of over Rs. 880 crore and buffer from the undrawn working capital facilities of ~Rs. 470 crore as on March 31, 2022 on standalone level (buffer stood at ~Rs. 400 crore as on July 31, 2022 on standalone level). As against this, the company has debt repayment obligations of Rs. 188 crore in the current fiscal, and the planned capex outgo of Rs. 500-600 crore on a consolidated basis for FY2023, which would be comfortably met from available sources of liquidity.

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, 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/OPBIDTA remains above 1.5 times on a sustained 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 Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Endurance Technologies Limited. Subsidiary details are all enlisted in Annexure-2.

About the company

ETL is among the largest auto component companies in India, present across aluminum die cast components, suspension, transmission and braking components. The company was started as a captive supplier of components to Bajaj Auto Limited (BAL), and over the years the company has gained scale by diversifying into various other product segments and adding new clients. At present Endurance is engaged in the manufacturing of die casting, braking, transmission and suspension system for catering to the dominant OEMs, predominantly in the 2W and 3W segments. Endurance has set up its own R&D setup, duly approved by Department of Scientific & Industrial Research (DSIR), for each of the segments enabling it to gain business and remain a preferred supplier with many of its client OEMs. Endurance also has a strong aftermarket business with 42 overseas distributors (in 31 countries), and 501 distributors in India. Through the acquisition of Maxwell, Endurance has entered into the embedded electronics space, with Battery Management systems as the current flagship product.

Outside India, the company has grown via acquisitions in the castings business primarily in European markets. Endurance enjoys a strong relationship with the Stellantis Group and Volkswagen (VW) Group, each accounting for ~25-26% of its European revenues during FY2022. 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.

The two-wheeler (2W) business remains a key revenue contributor. India business contributes ~75% of consolidated revenue, wherein ~80-85% of India business is from 2W, and the rest from three-wheelers (3W), passenger vehicles (PV) and commercial vehicles (CV). BAL remains the main customer for the company accounting for 40% of consolidated revenues in FY2022. In the past few years, the company has also strengthened its relationship with other major OEMs and the same is reflected in reduced reliance on revenue from BAL.

Key financial indicators

ETL – Consolidated	FY2021 Audited	FY2022 Audited
Operating Income (Rs. crore)	6,547.0	7,549.1
PAT (Rs. crore)	519.6	460.7
OPBDIT/OI (%)	15.9%	12.8%
PAT/OI (%)	7.9%	6.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.6	0.5
Total Debt/OPBDIT (times)	0.6	0.4
Interest Coverage (times)	75.6	151.8

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

Source: ETL, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					26-Sep-22	30-Sep-21	11-Sep-20	23-Aug-19
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+

*Source: Company; *not yet placed*

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, are available on ICRA's website: www.icra.in

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	Long term / Short term, Fund based / Non fund based limits	NA	NA	NA	22.0	[ICRA]AA+(Stable)/ [ICRA]A1+
NA*	Commercial Paper	NA	NA	NA	100.0*	[ICRA]A1+

Source: *Company; *not yet placed*

[Please click here to view details of lender-wise facilities rated by ICRA]

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	100.00%	Full Consolidation
Veicoli Srl, Italy	100.00%	Full Consolidation
Endurance GmbH	100.00%	Full Consolidation
Frenotecnica Srl	100.00%	Full Consolidation
Maxwell Energy Systems Private Limited	51.00%	Full Consolidation

Source*: Company*

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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