September 27, 2023

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	22.00	22.00	[ICRA]AA+(Stable)/[ICRA]A1+; reaffirmed
Commercial Paper	100.00	100.00	[ICRA]A1+; reaffirmed
Total	**122.00**	**122.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to take into account Endurance Technologies Limited's (Endurance'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 aluminum diecasting, suspension, transmission and braking components, with the company eyeing further segmental diversification through aluminum forgings, driveshaft manufacturing and battery management systems (BMS) and increasing focus on EV market, Indian 4W market and the aftermarket. Further, the ratings also reflect Endurance's strong financial risk profile as reflected in low leverage and strong debt coverage indicators, which is likely to sustain in the near to medium term on account of minimal dependence over external borrowings. The company continued to report a negative net debt position on a consolidated basis for a fourth consecutive year in FY2023, and this is expected to continue going forward as well. The company's liquidity position remains strong, supported by cash and liquid investments of over Rs. 930 crore on the consolidated level, and healthy quantum of undrawn bank lines which stood at Rs. 180 crore as of March 2023. ICRA expects Endurance's revenues to register healthy growth over the medium term, supported by ramp-up in new orders as well as efforts to diversify its clientele and product offerings. Increasing traction seen in the aftermarket segment and the non-automotive segment should also aid in revenue expansion and diversification, going forward.

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 automotive market, given its limited (although increasing) presence in the aftermarket segment. While the company reported moderation in its margins during FY2022-FY2023 amid an inflationary environment, its efforts towards backward integration and product mix improvement is expected to support it in maintaining a stable and improving margin profile over the medium to long term. While the increasing thrust towards electric vehicles (EV) worldwide could pose a challenge to the company's transmission products in the long term, comfort is drawn from Endurance's success in winning business for component supplies to EV/hybrid vehicles in Europe and India coupled with strong research and development (R&D) capabilities. Accordingly, ICRA expects Endurance to gradually shift its product offerings to suit the underlying industry demand trends and hence minimise any adverse impact on the company's cash flows over the medium term. Endurance has also undertaken investments, such as that in Maxwell Energy Systems Private Limited (Maxwell), which supplies BMS 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 technologies. Large debt funded expansion, if any, will be evaluated on a case-to-case basis.

The Stable outlook on the long-term rating of Endurance reflects ICRA's expectations that the company would continue to benefit from its well-established track record across various business verticals within the automotive space, both in India and Europe. It is also expected to maintain a comfortable financial risk profile with minimal reliance on external borrowings, strong coverage indicators and a strong liquidity profile, supported by healthy accruals from operations.

Key rating drivers and their description

Credit strengths

Among the largest Indian auto component manufacturers with strong relationships with reputed automotive OEMs; healthy wallet share with key customers – With revenues to the tune of Rs. 8,804 crore at the consolidated level in FY2023, Endurance is among the largest automotive component manufacturers in India. Its Indian operations generated 77% of its total revenues, while its Europe business contributed the rest in FY2023. Currently, Endurance supplies to all 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), TVS Motor Company Limited (TVS), Hyundai Motor India Limited (Hyundai), and Kia India Private Limited (Kia). In Europe, Endurance's key clientele includes Volkswagen AG, Stellantis, and Daimler AG. The company has benefited from its established relationships 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 aluminum die casting, suspension, braking and transmission segments – In India, Endurance has a leading market share in supply of aluminum die casting components, and is also among the top suppliers of suspension, transmission and braking products in the domestic 2W auto-component market. In addition to its four main product segments, the company has recently ventured into newer product segments such as aluminum forgings and driveshafts, which would offer further diversification benefits. Further, it has also made inorganic investments, aimed at improving its technological capabilities for transmission and brakes, while also aligning its business with the emerging EV environment through a BMS offering. Even in terms of automotive segments catered, Endurance has a diversified exposure, with Indian operations catering to 2W, 3W and passenger vehicle (PV) segments, while in Europe it derives most of its revenue from PVs and has recently focussed on the 2W market. Revenues from non-automotive applications, though limited at present, are expected to increase gradually going forward, thus offering further diversification to Endurance's revenue base over the medium to long term.

Financial profile characterised by healthy capital structure and strong liquidity profile – Endurance's financial profile is characterised by low gearing of 0.1 time, a negative net debt position and comfortable total debt to OPBDITA ratio of 0.5 time at the consolidated level, as on March 31, 2023. Further, the company's working capital intensity has remained moderate at ~7-8% at the consolidated level over the past few fiscals, backed by prudent working capital management. The company's liquidity profile remains strong, with consolidated cash and liquid investments of over Rs. 930 crore as of March 31, 2023, and healthy quantum of unutilised working capital limits as well. While the company would continue to invest in capacity enhancements as per requirements, both in its 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 Endurance supplies to several 2W OEMs in India, BAL continues to be the mainstay of the company's revenues constituting 38% of consolidated revenues and 49% of standalone revenues in FY2023. However, the share of revenues from BAL has reduced over the years, from the highs of 55-60% 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 from Volkswagen and Daimler, thus reducing revenue share of Stellantis (in Europe business) from the highs of 56% in FY2017 to 25% in FY2023. Moreover, Endurance's efforts to win new orders from customers other than BAL, along with new ventures such as driveshaft manufacturing, aluminum forgings, non-automotive castings, etc. are expected to help reduce overall exposure towards these select key clients to a large extent.

Aluminum casting and transmission business exposed to electrification risk in automotive industry – Endurance supplies engine, transmission and structural casting components for 2W, 3W and PV segments, and engine components are exposed to obsolescence risk due to electrification (i.e. higher penetration by EV and hybrid vehicles) 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 EVs is increasing. In the domestic market, it has developed new components relevant to EVs, and has secured business from EV OEMs both for existing as well as EV-related components. Further, Endurance's acquisition of Maxwell in FY2022, which is engaged in manufacturing of BMS, is expected to help it ramp up revenue contribution from EV products, going forward. While 81% of new orders won by the company for European business in FY2023 was related to EV and hybrid technologies, 42% of new orders won for India business in the year were related to EV technology, highlighting Endurance's preparedness to embrace the pace of electrification in the automotive sector. Nevertheless, ICRA expects EV penetration in India to increase only gradually and accordingly, adverse impact of electrification on company's cash flows is not expected to be material in the near to medium term. Bulk of Endurance's transmission business is for motorcycles, where the pace of electrification is rather low.

Exposure to cyclicality and volatilities of domestic and overseas automotive markets – While Endurance benefits from presence across different products and geographies, 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 presently constitutes less than 6% of consolidated sales. Increasing focus to improve aftermarket presence from India and also from Europe, 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. Further, active efforts undertaken by the company to increase the revenue share from non-automotive applications, albeit in a gradual fashion, should provide some comfort against the cyclicality and volatilities associated with automotive sector.

Environmental and Social Risks

Environmental considerations: Due to increasing preference for more environment-friendly EVs over internal combustion engine (ICE) vehicles, Endurance may face obsolescence of certain products from its portfolio – mainly the products related to engine and transmission systems which are required in an ICE vehicle but not in an EV. As a result, a part of Endurance's product portfolio remains exposed to the risk of increasing electrification in the automotive sector. However, with the company actively seeking opportunities to supply products to OEMs in the EV space, and some of its products being powertrain-agnostic, the risk is mitigated to some extent. Moreover, electrification in the automotive sector is expected to be a gradual phenomenon, which should provide enough time for auto component manufacturers to strategise accordingly.

Social considerations: Endurance, like most automotive component suppliers, has a healthy dependence on human capital; as such retaining human capital, maintaining healthy employee relations as well as supplier ecosystem remain essential for disruption free operations for the entity. The entity has been undertaking initiatives to support its vendors in the entire supply chain; it procures goods and services from the MSME sector as well. Another social risk that Endurance faces, like other auto-ancillaries, pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to a financial implication but could also harm the reputation and create a more long-lasting adverse impact. In this regard, Endurance's strong track record in catering to leading automotive manufacturers underscore its ability to mitigate these risks to an extent. Endurance recognises the role of quality in maintaining and growing its market share, and thus focuses on improving quality to reduce rejections, save costs and safeguard its reputation.

Liquidity position: Strong

The company's liquidity profile is **strong**, supported by sizeable, unencumbered cash and liquid investments of around Rs. 930 crore (consolidated) and buffer of around Rs. 180 crore (standalone) in the form of undrawn bank lines as of March 2023. Its liquidity profile is further enhanced by healthy cash generation of ~Rs. 800-1,000 crore per annum, at a consolidated level. Against these, the company plans for capex of ~Rs. 900-1,000 crore annually, and has debt repayment obligations of around Rs. 200 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade Endurance'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 the financial profile of Endurance, such that net debt/OPBIDTA remains above 1.5 times on a sustained basis. Deterioration in performance of principal customer and subsequent impact on Endurance'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 enlisted in Annexure-II.

About the company

Endurance 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 BAL, and over the years has gained scale by diversifying into various other product segments and adding new clients. At present, Endurance is engaged in the manufacturing of die castings as well as braking, transmission and suspension systems for OEMs, predominantly in the 2W, 3W and PV 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. The company also has a strong aftermarket business with 45 overseas distributors (in 31 countries), and 501 distributors in India. Through the acquisition of Maxwell, Endurance has entered into the embedded electronics space, with BMS 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 ~25-28% of its European revenues during FY2023. In Europe, Endurance manufactures components used in the engine and transmission, as well as EV and hybrid applications, and supplies them in fully machined form to its customers – primarily in the PV segment.

The two-wheeler (2W) business remains a key revenue contributor. India business contributes ~77% of consolidated revenue, wherein ~80-85% of India business is from 2Ws, and the rest from 3Ws, PVs and commercial vehicles (CVs). BAL remains the main customer for the company accounting for 38% of consolidated revenues in FY2023. 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 revenues from BAL.

Key financial indicators

Endurance (consolidated)	FY2022 Audited	FY2023 Audited
Operating Income (Rs. crore)	7,549.1	8,804.0
PAT (Rs. crore)	460.8	476.3
OPBDIT/OI (%)	12.8%	11.8%
PAT/OI (%)	6.1%	5.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.4	0.5
Interest Coverage (times)	151.8	50.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation
Source: Endurance, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of June 30, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					27-Sep-23	26-Sep-22	30-Sep-21	11-Sep-20
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: Click Here

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	Endurance Ownership	Consolidation Approach
Endurance GmbH	100.00%	Full Consolidation
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
Frenotecnica Srl	100.00%	Full Consolidation
New Fren Srl	100.00%	Full Consolidation
GDS Sarl	100.00%	Full Consolidation
Maxwell Energy Systems Private Limited	56.00%	Full Consolidation

Source: *Endurance Annual Report*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sruthi Thomas
+91 124 4545 822
sruthi.thomas@icraindia.com

Yashowardhan Swami
+91 20 6606 9923
yashowardhan.swami@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@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

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.