CRISIL RESEARCH

Press Release

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CRISIL Equities assigns IPO grade 3/5 to Endurance Technologies Limited

CRISIL Equities has assigned a CRISIL IPO grade of "3/5" (pronounced "three on five") to the proposed initial public offer (IPO) of Endurance Technologies Ltd (Endurance). This grade indicates that the fundamentals of the IPO are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to Endurance factors in its strong position in the auto-component segment - not only a tier-I vendor to companies like Bajaj Auto and the Fiat group but also poised to benefit from the expected growth in the sector. The auto components sector is set to register a CAGR of 14% to reach Rs 2,240 bn over the next five years, as per CRISIL Research.

The grade also factors in the advantages arising from its strong 25-year relationship with Bajaj Auto. Endurance derives about 50% revenues from Bajaj Auto. In FY08 and FY09 each, Endurance’s sales made up 19% of Bajaj Auto’s raw material consumption while for FY10 it was16%, thereby indicating significant interdependence between the two companies.

Besides, the grade takes into account that in the past five-seven years, Endurance has diversified itself from being a two-wheeler castings provider to Bajaj Auto to a multi-product supplier across the two-wheeler and four-wheeler space, through a series of acquisitions, technical collaborations and in-house R&D.

The grade is moderated due to the high dependence on few clients for revenues (Bajaj contributes ~70% of domestic revenues). Also, past strategies of aggressive acquisition of European niche auto-component players through foreign currency loan (repayable in Japanese yen, USD and Euro) along with internal accrual as well as private equity investment have led to write-off of certain European acquisitions and forex loss on account of appreciation of foreign currencies against INR. These led to a wipe-off of company’s net worth in FY09, and it had to revalue certain assets to have positive net worth. Had the revaluation not been conducted, it would have had reserves and surplus of negative Rs 426 mn in FY09 with share capital of Rs 170 mn.

About the company and the issue

The promoter, Mr. Anurang Jain, commenced aluminium die-casting operations in 1985 through Anurang Engineering Company Private Limited (AECPL). Endurance was incorporated on December 27, 1999, to manufacture suspension and transmission components. In 2006, AECPL was amalgamated with Endurance. In December 2006, the company acquired Amann Druckguss GmBH, Germany, which manufactures high-end aluminum die casting for European luxury car manufacturers and, in March 2007, the company took a controlling stake in Italy-based Fondalmec S.p.A., engaged in machining of die-casting components for the automotive sector. These acquisitions broadened Endurance’s customer portfolio, which now includes Fiat, Daimler, Audi AG, Porsche AG, Magyar Suzuki, etc. In June 2008, Endurance entered into a joint venture agreement with Magneti Marelli S.p.A. (part of the Fiat Group) to manufacture and sell struts and shock absorbers for four wheelers and above vehicles. The company’s products include (a) aluminium die-casting products, (b) suspension products for two-wheelers and three-wheelers, passenger vehicles, LCVs and HCVs, (c) transmission products, for two-wheelers, three-wheelers and four-wheelers (d) brake products for two-wheelers and three-wheelers.

Endurance's consolidated operating income grew at a CAGR of 2.8% between FY08 and FY10 to Rs 23 bn, as the standalone entity's operating income growth (12% CAGR to Rs 15.8 bn in FY10) was offset by declining operating income in its European subsidiaries. Consolidated EBITDA margins declined from 9.9% in FY08 to 7.4% in FY09 due to a sharp decline in margins of European subsidiaries. However, the consolidated EBITDA margin rebounded in FY10 to 13.8% due to the jump in domestic sales volumes and milder commodity environment which boosted standalone entity's margins to 17.0%. Due to lower EBITDA margins and investment write-offs, the company incurred losses at the consolidated level in FY08-FY09. It made a marginal profit of Rs 39 mn (PAT) in FY10 largely due to a re-bound in EBITDA margins

Endurance is a professionally-run company and has put in place adequate corporate governance processes and systems. The senior management consists of people well-experienced in the auto component industry. Also, as all the promoter group companies now stand amalgamated, the company is expected to get undivided promoter attention.

Endurance will use the IPO proceeds to fund the repayment of certain loans amounting to Rs 2,068 mn, to fund the Rs 2,040 mn prepayment of loan and to invest Rs 500 mn in capital expenditure and capital equipment.

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