

SCHAEFFLER

“Schaeffler India Limited - Transcripts for Group Meeting”

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SCHAEFFLER INDIA PARTICIPANTS:

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- Gauri Kanikar :** Yeah, so we can begin with a question and answers directly if that's fine with everyone.
- Harsha Kadam :** But I think in the beginning, thank you for taking time out and meeting with us. We want to give more time surely, but then, you know, we try and see how we can do better and better. I really appreciate you people being here. Thank you once again.
- Participant :** On the export piece, right, where we've seen this weakness last few quarters. So, if you could just kind of help us, you know, how are you seeing the year start off to talk about some of your key geographies...And also, you know, there was some discussion on how you want to offset the weakness of EU and US from the Southeast Asian countries. So, just a broader picture on how you think CY 2024 is looking on the export front for your key markets.
- Hardevi Vazirani :** Yeah, so, whatever we saw in like Q3 and Q4, that continuous decline, at least that is stagnated now. So, we are not seeing based on the current order book of six months, we don't see a further decline in that. Having said this, you rightly said that we are looking at Southeast Asia and businesses cannot be one from one day to the other. But with our Asia Pacific colleagues, we are working on Southeast Asia countries. Even in future on how we can have this compensation from other locations. So, we are exporting to Vietnam, Indonesia is in pipeline. And we are working on those compensating measures that we are not having overdependency only on Europe.
- Participant :** So, it's more of a bottoming out. But no quick revival.
- Harsha Kadam :** You don't see that as yet not yet visible. Rightfully, I think the situation there in Europe is still what it is, or what it was. But that said, on the economic growth front as well, you're beginning to see some pressures there in Europe on their own growth. So that's, I guess, is of kind of compounding the fact that even if there is a recovery, will it recover, because of the GDP growth rates have come down drastically compared to the rest of the world. So that pressure is something we are now seeing as well. But as of now, the indicators for us is that it's kind of flat.
- Participant :** Is it getting further compounded because of supply chain issues? Red Sea and stuff like that?
- Harsha Kadam :** Supply chain issues - you know - what we see and believe is that these are very momentary. It doesn't have a very long-time span, like, what we have seen due to the Ukraine war. Also, the flip side what we see is when the supply chain issues happen, the cost goes up. More than more than anything else. It's not like the demand goes down; the demand is still there. It's just there's an interim blip. And that we experienced, but we did have a similar situation. I think last year when the Suez Canal was blocked by a ship for almost a month, you know, it impacted the supplies. But if all it did was the cost went up because we had to find alternate routes, we had to ship it by air, so it didn't kind of destroy the growth.

- Participant :** Yeah, we are seeing the same situation.
- Harsha Kadam :** We did see now especially with the Red Sea crisis, but last I heard the situation is a lot better than what it was a month ago.
- Participant :** And is it also in any manner leading to.. in a very perverse manner. You know, like, is there a tendency to sort of buildup inventory more than the demand is?
- Harsha Kadam :** From our customers end you mean? We are not seeing that.
- Participant :** We're seeing the parents' numbers declining further. The pace of sales has decline further in the last quarter versus the previous quarter. So, is it a lead indicator for us or a lag indicator? Would they actually start lowering down their orders to you now, or they would have already done in the previous quarter?
- Harsha Kadam :** First and foremost, I don't know, you're referring to the Group Sales groups, but actually it was better.
- Participant :** China, US and some parts of Europe
- Harsha Kadam :** Because last week itself, we announced the results for last year, we have done much better than what we expected globally as well, in spite of all the difficulties, in spite of the war, so even it was better than the estimations we had.
- Participant :** Actually, I was referring to more of an industry - because for SKF, Timken etc. because Schaeffler numbers were just out so I was referring more as an industry rather than Schaeffler specific.
- Harsha Kadam :** Globally I am not able to comment on that. But standalone as Schaeffler definitely the numbers are much better than what we had expected it to come out globally.
- Participant:** In terms of a market end market, how the end marketing industries within auto and exports been.
- Harsha Kadam :** First thing is there's no end market. We don't deal with the customers abroad. When we talk of exports our role stops, when we ship this to our own sister concerns in that part of the world, that's it, I have no control on the market, because they handle the sales.
- Participant :** But mainly goes into the auto segment or industrial?
- Harsha Kadam :** Well, a lot of it is industry.
- Participant:** Is there any cut in capex now that we are seeing slightly muted on the exports, or at the plants which you are there for the world.

Harsha Kadam : Up until now we have not cut any capex because our belief is whatever situation we're going through is not a permanent situation that's going to remain like this, right? India is growing, you're seeing the numbers of India's own growth in terms of GDP, the fastest growing country on this planet today. And that said, rightfully even the geopolitics is favoring that India should be the place. So whatever strategy we at Schaeffler look at for India, in India is long term. It's never short. We are here to stay invested. Yes, these ups and downs would be there along the journey, we will have to find ways as to how we navigate through this crisis. So as Hardevi rightly said, we are looking at even Southeast Asian markets, we have been fairly successful in getting some wins there. Is that enough? May not be. Do we need to do more? Of course, we need to do more. Our efforts have to be more to go out and talk to the other Schaeffler entities in other parts of the world to grow the business for us so that we have a kind of a diversified base for exports. We'll have to do that. It's a lot of hard work sitting in India to do that is something you know, and we never done this before, by the way, so we are also learning how do we do this? We are doing it.

Participant: By the end of this fiscal year, we'd see that one of the major peers Timken, they are now going into spherical roller bearings which will be directly competing with us. Do you have any plans to counter this?

Harsha Kadam: I think we don't need a plan to counter, because we have been proactively on this journey ahead of them. We have done the maximum localization is on the spherical bearings. We've been doing consistently over the years. Well, I know that when we heard this, this I said okay, competition also wants to catch up; no harm in it and it's an open playing field. Our localization content if you were to see five years back and where we are today. We have gone up six seven percentage points. We are at ~75% now. And we will continue to increase our localization content. It is fitting in well with the 'Make in India' as well for us. So, it's important that we make here and supply here. So, there'll be more products that we will keep on adding I think as I'm speaking there are a few more spherical rollers that are getting localized as well. So, we will continue on this journey irrespective of what the others are doing.

Participant : Any outlook on railways?

Harsha Kadam: Railways definitely is an important sector. And now that we see a lot of action on the railway sector as such. With the modernization that is happening we believe there are opportunities for us as well. Rightfully, we are playing to our strengths in this sector. And we are very strong on the metro trains, which are going into tier one and tier two cities. We are very strong on the electric locomotives. And that's exactly fitting in well with the straight railway strategy to become 100% electric. I think at last count, they must be having about 80 diesel engines left, which are still running, which they are phasing out in the next one or two years very soon. It's good to see that railway driving this electrification strategy, with the larger purpose being to address the emission, carbon emission or the carbon neutrality initiative, which is very good, because that's our belief as well that we must work in that direction. And we are doing it. So that said, locomotives, we are strong, we have a very good portfolio there and lot of it is local portfolio. Again, we make those products here. Talk about passenger trains, with the step up in the quality of the passenger trains that we see – we hear Vande Bharats getting launched everywhere. Again, that's electric. So, we gain there. On the passenger wagons, we are playing the game already. Freight has been one of the challenge areas for us because the freight technology has not yet

evolved there. But actually, that's also catching up now. Our next generation of bearings that we have for the axle boxes on freight cars, I'm sure will continue to make some inroads there as well. But otherwise, all in all, we have a good story to tell on the railway sector. Yes, we have some small gaps on the freight cars, which we will address as we move forward.

Participant : Railways would be 10% ?

Harsha Kadam : 7 to 8%.

Participant : If you could also talk about the wind side. Last couple of calls you are talking about the recovery on the wind after the way that we saw. And again, wind would be similar 7-8%? Can you talk a bit on the wind and the process industries - trying to understand some of these bigger sectors for you.

Harsha Kadam: So, wind kind of a checkered development over the last two years. Going back to 2022. The first half was when the war started in Ukraine and the second half, we saw the real impact of that coming onto the wind sector. Fundamentally, this was because of all the projects that went into hold in Europe and Central and East European countries right. With the sanctions getting imposed, obviously, none of these projects got executed there. And as a result, the entire value chain got affected right. And as you know, the wind equipment manufacturers and almost all the global players are in India today. They are using India as a manufacturing base to export back to their home countries probably. At last count almost 80 to 82% of the production is exported out of India, India's own consumption of wind equipment is very small. It's all going out of the country. And that got impacted and that's a huge impact. But cut come into 2023, the first half of 2023 as well we saw the demand not coming back as much. But 2023 second half Q3 onwards, we began to see a bottoming out and already on the upswing. And even this quarter this year, we are seeing pretty good demand back in the wind sector. So, all in all, wind went through some tough times strong headwinds, the wind itself faced a headwind. I think now I think it's bottomed out. And we hope this is going to sustain going forward as well. And I think one more quarter should be giving us more confidence on sector stability.

Harsha Kadam: The domestic wind has always been stable, we have never seen a drop. Irrespective of where war broke out what happened, we have never seen a drop, but then domestic wind is hardly very, very smaller. 15 to 16% of the total wind produced is only domestic the rest is all exported out.

Participant : One of the peers saying they want to exit this in order to lower profitability. Is that localization is helping you to some extent in Savli?

Harsha Kadam: So, let me lay it out for you. First thing is our presence is very strong in the wind sector. Multiple reasons, one because of our product performance, right, and we have very credible performance over the years. And we work with all the global players, by the way, and that is standing very well for us. Number one, number two, it's in our strategy that we will continue to, you know, focus on the wind sector, it's close to our heart, because we have a target as an organization to become carbon neutral, completely. So rightfully, that's a sector we should be generating and supporting more, as well. So, we're doing that. The third is our investment strategy

has been consistent. And we continue to invest in the sector as well, more investments are going to come in to sector as the wind equipment specifications change, we are also gearing up other new products as well. So, for us, there's a very clear strategy to grow in the segment. I cannot speak about the others what their strategy is about.

Participant : And on the other process industries?

Harsha Kadam: The process industries also we have seen pretty good growth, I must say. Obviously, this is coming on the back of the push from the Government of India, in infrastructure growth, clearly, we are seeing steel, cement and some of the construction equipment industry is doing very well. And that is boding well for our business as well. And all indications this year to even in the interim budget, there was a high focus on infrastructure again. So, I expect this trend will continue.

Participant: Globally how does the parent take decisions on whether they want to move production from one geography to another, manufacturer in China / India and therefore, how should one think about implications on exports for you.

Harsha Kadam : So, globally, we are calling we are in a phase of digital transformation. And wherein if we talk on the automotive side, Europe, Korea, Japan, they are moving faster towards EV or hybrids compared to India. So, for group, they have to stay invested in ICE for many more years in India. And on other side and other geographies they have a focus on E mobility. So accordingly, the decisions are taken also from China plus one strategy point of view, where the customers are moving. Where are Hyundai and Kia's of the world placing their bets on - they have to move closer to them. So, Group has been increasingly investing in Vietnam, Mexico, India, which was not the case, five years back. If you saw our capex as percentage to sales, it was below 5%. And we are now inching closer to 10%. So, the strategies are evolving based on the ecosystem of the customers.

Participant : So that would mean that if you're looking at where the world is heading, they will release.

Hardevi Vazirani: And also, the technologies like Europe wants to use its spaces, its plants more now for EV. So, they will free up the space and transfer those technologies possibly to India, Mexico, Vietnam and those countries which will continue like we know that Southeast Asia and India will continue on ICE for another decade at least. And also, if you see are passenger cars, for instance in India is over 5 million cars. And CAGR for next 10 years is expected at five, five and a half percent, which means by 2030 we would have seven over 7 million cars. And out of 7 million only 25% would be EV, at rest all still would be ICE so.

Participant : So, but over that period, it still means that the ICE population will not grow. So, does that justify making investments in India?

Harsha Kadam: Data shows the ICE population in India will at a lower rate albeit - single digit. The EV would grow at a faster rate. But then there is still growth happening in the IC engine. And surely now it's a question of do we want to miss the bus there when there is still a growth for the next decade. Because the absolute numbers when you

calculate as they rightly said, even with a CAGR of growth rate of IC engines, three and a half percent CAGR growth rate we are we're staring already at seven, 8 million with cars. So absolute number of cars produced is going to go up.

Hardevi Vazirani: And we are having capacity constraints even today.

Harsha Kadam: Today already we have capacity constraints for existing demand itself. So rightfully, we will have to continue to invest in some of the IC engine technologies. Also, what's happening is there is a shift that is happening we are seeing. One is ICE. Second is some of our customers are also graduating to bring in I see with hybrids. The Japanese are doing it, Koreans are also wanting to do it. So, we have offerings in the hybrid technology as well. Now that's complementing – ICE grows, I have hybrids also competing. So, I'm bringing in hybrids, we already have started locally making hybrid products here. And then you have the emerging EV that is catching up faster. Now they're also we have now entered, we have already one win in our hand. And we are executing that right now. So, I'm sure there'll be more we will continue to work, get more wins.

Participants: How do you think on the bearings part of the business from the same angle - domestic and exports and how the bank thinks about supply chain allocation?

Harsha Kadam: As I said, you know, it's more about what India wants to do for India. And that's where we are focusing on. Because we see there's a lot of growth in India itself. Our own domestic business has always been growing at double digits so far. We want to sustain that growth momentum for overall domestic business. So that includes bearings, which is a key part of 60% of our total business, the 40% is non bearings. So, we would like to continue to grow. Export as rightly pointed out, if it happens, we are going to definitely capitalize and grow we have invested as well, we will continue to build on it, we look at alternate markets, which we are doing already. We already got some wins there as well. But I'm sure you will also acknowledge the fact that what exports we do is to our own sister concerns. We don't give it directly to the end customer. So, to that extent, we have some limitations, so to say. So that is the second point. The third point is, clearly our strategy is not only exports, but also not it's not so export. We want to be there but it's not like at the cost of domestic growth, the domestic is primary growth for us and that remains that we will continue to grow continue to invest for domestic growth as well.

Participant: So, that second point you said is well I could understand a little better when you supply to your sister concern, how does that decision making take place – does the parent take a call in their part of supply chain planning that supply should move from India to Vietnam or anywhere in the world was China supplying or Poland supplying or Vietnam supply?

Harsha Kadam : It is a joint decision. And multiple factors are looked at into, proximity is one of them. Rightfully cost competitiveness is another one. There could be also the customer's dimension. Customer may want to prefer to source from only one location not from the location we propose. So, everything is taken into account. And this is not like somebody sitting in Germany makes the decision. It doesn't work like that it is well discussed and agreed upon.

- Hardevi Vazirani :** And there are business cases, huge business case behind every such relocation or localization. So various factors are considered. I mean, we have to pitch our business case.
- Participant :** How is India's cost competitiveness versus the other geographies?
- Harsha Kadam :** We are sitting in a sweet spot if I can put it that way. Some product lines, we are definitely very cost competitive. And that's one of the reasons we believe India is the place where we should manufacture these products in high volume.
- Participant :** Even versus China?
- Harsha Kadam :** Well, I'm not in China as a comparison at all. Because, you know, the extent of transparency and visibility of China's costs something that is not known to any of us.
- Participant :** When I say versus China meaning – Schaeffler's China or manufacturing because then you're comparing cost structures like to like?
- Hardevi Vazirani:** Volumes that play are totally different in China. I mean, believe me all said and done China plus one or whatever, the world still depends a lot on China. And China's even our own businesses three times our business. So, whenever there are volumes, cost competitiveness is better.
- Harsha Kadam :** I would drive the conversation in a different direction. Today the entire world is seeing as can we minimize sourcing in China? So why is the question coming up?
- Participant :** That's what I wanted to ask. Everybody talks about China plus one, but do you actually hear at your parent level saying that look, we are supplying from China, but we need to shift it to some other country right now.
- Harsha Kadam :** Partially right, and partially not right. When I say partially right, China has been a biggest supplier, we're not seeing that that should be cut down. That we already invested there, let it continue to run. In a growing market, the world overall is growing US market is also growing now. So, can we have one more parallel to China? So, it's not at the cost of China.
- Participant :** The incremental one.
- Harsha Kadam :** That's why it's called China plus one otherwise, China minus one, I know it doesn't work like that.
- Participant :** And on that, because I think even Schaeffler has invested in the US facility and incrementally we are seeing a lot many other companies also investing in the US. So, does that weaken the case for India as an alternative?

- Harsha Kadam:** Not at all, not at all. Again, as I said, you know, you can't make every product in every country and our portfolio is so wide that you can't manufacture everything in one block every location. So, somewhere the optimization and the rationalization of the portfolio will happen. So, what products US will be making, at least most of it will be different from what India's making, correct? If, again, look at where the world was, there was a lot of talk about globalization, right. And now they've become so much of polarization. So, with that, even this will determine now you may want to export but the US may say sorry, guys, I want to make it here I want to provide employment here.
- Participant:** So, are there any specific products where you would say that India is, you know, globally competitive?
- Harsha Kadam :** Yes, which would we have, I think the entire range of cylindrical roller bearings, we are very, very competitive. And we have the capability, the competence to design engineer, any kind of cylindrical roller bearings in India itself. So, India has become a hub.
- Hardevi Vazirani :** And even China buys.
- Harsha Kadam :** China also buys from us by the way. We export to China, the same product, we do that.
- Participant :** And you talked about, the capex going up to 10% of revenues. But, of course, given what we discussed and the kind of opportunities, see, our revenues, you know, is what, 700 800 million euros compared to the global revenue. So, obviously, that if outsourcing were to happen, there is a larger scope, which may mean that you might need to even further up your capex. Is that something which is you're thinking about, possibly,
- Harsha Kadam:** Again, as I said our entire growth strategy of Schaeffler in India is driven by India's growth story goes, it's not export driven. If I have to do that, then, you know, my entire strategy will be different. Then I wouldn't look at railways, I wouldn't be having this conversation, because then my focus is on export, it doesn't matter. I'm just product focus. I want to sell this product more in that country. I don't care whether India works now. That's not the language here. We are committed to grow in India, for India, definitely. So, we are investing in capacities even for India. Export is also there for us, but it's not like that is the deciding factor and that is a big strategy.
- Hardevi Vazirani :** It can result out of these Europe FTA and those topics.
- Participant :** Should the opportunity come through for you. Would you be needing a lot more capex probably may not be at the cost of India. Yeah, it need not be either or it can be add, right?
- Harsha Kadam:** Definitely that's exactly the strategy we have done all this while it should be an add. And now we hear about the EFTA getting closed. So, if that were to happen and if it is opening up opportunities for us to leverage the cost competitiveness here to give it to the European market, will surely capitalize on.
- Participant:** Last year, we had a large win on the EV side and the production which was expected by second of this year. So, what is the status?

Harsha Kadam: We are on track.

Participant: And how would be the content for that business vs ICE on how you see this ?

Harsha Kadam: First thing is, our project is well on track. And exactly as committed, we will be, you know, starting the next step in the project plan will get executed. There's no doubt about that. Coming to the next part in terms of our own investments to localize the production that would happen in a phased manner, not in not like I bring in a line and start producing. So, we will have to do, why because two reasons. One, this is entirely new technology for us in India, we never done electric vehicles, so we are learning as well. In a phased manner, we're going to bring in which means our investments also be in a phased. That said, we're not stopping with this one win. We have clear plans to work with other customers to generate more such business, we're working with quite a few customers. So as and when, you know, more wins come into, we will again, revisit our investment plan because with more business wins obviously that would accelerate our investment plan as well. Rightfully because we are getting the economies of scale now coming into play.

Participant : Even by including imports currently, because obviously now the volumes are not high, but even including imports, what are the Schaeffler content?

Harsha Kadam: Content? Okay, coming to your content now, that's where I had a question when you say content is the content per vehicle that you are talking about?

Participant : Yes

Harsha Kadam : And it's a little tricky question. So, how do you measure content per vehicle because it's on the vehicle par number correct? Whatever vehicle gets produced irrespective of what technology which means you need to bring the IC engine numbers into play as well and calculate the CTV. Then it distorts the entire picture. So, as you know, our own content per vehicle on the IC engine, we are in somewhere in the 50 Euro range right. Now, do you include the large population of 4.5 million passenger vehicles that is there already with IC engines as part of the calculation on EV technology is that the way because then your content per vehicle is distorted.

Participant : Comparing like to like it.

Harsha Kadam : Simply put, like this see here I supply a component today to an IC engine could be a wheel bearing, it could be a shock absorber strut bearing or it could be some you know, clutch release system, or it could be some rocker arm but it's a component. Here in the EV what am I offering ? I'm not offering a component I give a complete system, a motor with a gearbox with temperature control module and the controller which goes with that because you need the electronics and the software to control the entire mechanism, it's a system level offering. So obviously, the system level offerings, the value is much much higher. If I'm in three digits here, I will be in four or five digits. So, apple to apple you can never compare it from a few 100 rupees and now I'm talking big.

- Participant:** But that will include a lot of bought out items.
- Harsha Kadam:** It depends on how you want to see it. Even today in a bearing, I don't make the cage I buy the cage. I don't make the grease I buy the grease. I don't make the seal; I buy the seal. I only make the steel part even there I buy the component. Turned rings are bought, value add is my core competency is where I bring in that value and the same applies there as well.
- Participant:** So how much of your current sales both on domestic as well as export is purely on ICE based products?
- Harsha Kadam :** Repeat the question please.
- Participant:** How much of the domestic sales as well as export sales is that a risk from EV?
- Harsha Kadam :** No, again, I have to look at it from the sector. Do you want me to take two wheelers of passenger vehicles?
- Participant:** Passenger vehicles.
- Harsha Kadam:** Immediately I don't see a risk, not for at least 10 years. Why because I did share already the data that IC engine still demand is going to be there in India. Even at a slower growth rate, you still have the base volume is so high. Correct?
- Participant:** If I take it other way, in that 50 euro per vehicle of content, how much will be purely something which is engine based?
- Harsha Kadam :** You are talking about the content per vehicle? Sorry, I misunderstood. I don't have the precise data, that's the wheel bearing if you separate out, the chassis and then the engine. I don't have the precise data there the split in the content per vehicle between the chassis application and the engine application. I don't have it now. But clearly, I must say just a very wild guess I'm throwing here probably it could be in the range of 80:20. Probably 80 being the engine.
- Participant :** Okay and that similar number would be for exports
- Harsha Kadam :** We don't export anything.
- Participant:** Because you also mentioned that some of the engine-based technologies are coming going out of Europe and coming to the emerging markets like India for manufacturing
- Harsha Kadam:** The production lines there as they phase out and move to new technologies, that line was also supplying to India. We are importing okay. Now what I'm going to do is anyway they are phasing it out. I bring the machines here and produce it from my use. That is what is happening.
- Participant:** So, exports are not on the engine side?

- Harsha Kadam:** There is no export on automotive side let me put it that automotive side we don't because automotive the model is every OEM company has his own supplier base in that location where they set up a plant that's how they
- Participant:** So, most of our mobility says export would be railways?
- Harsha Kadam:** Not mobility, okay. You are defining mobility and non-mobility. It's on the industrial side, because look at the product portfolio - we export sphericals, we export cylindrical rollers, which all go into process industries.
- Participant :** That would be classified in non-mobility exports, right?
- Harsha Kadam:** Yeah, that's what I'm telling.
- Participant:** But mobility export is a bigger number for you.
- Hardevi Vazirani:** I think that segmentation the way it is done based on I think ratio proportionate, because the group does not tell us where they are reselling.
- Harsha Kadam:** When we do an export business sale, I sell the product to my sister company, I don't know who the end customer is. I don't know which sector it is going to as well. There's no visibility to that.
- Participant :** I was just referring to your disclosures
- Hardevi Vazirani:** That is ratio proportionate. Oh, based on our domestic whatever is the ratio, you're apply that same ratio, because that's what the format mandates.
- Participant:** Globally, there is rolling technology or bushings, which potentially become a substitute for bearings in wind applications. Is that also a segment that Schaeffler has been looking at and any view that you have one, how that can that can potentially also increase content?
- Harsha Kadam:** I don't know about whether it will increase the content, but definitely we are evaluating that as well. We are aware of it. Some of the wind turbines they are moving to bush instead of high precision bearings. There is a reason for that because as the wind equipments become larger, the need for bearings also is growing in diameter, we are talking now in the range of two meter in diameter, that's a huge bearing. So, the cost goes up dramatically. So, some of the wind equipment manufacturers themselves are revisiting the design and they are now trying to reduce the speed and use a bush bearing. It's a proven technology, but not everyone has adopted the technology. And we are aware of it we are also evaluating so should we also look at consider bush bearings. We'll see as time comes how it changes.
- Participant:** Where does it stand in the technology curve today? That's it. That's the direction the market is going so we'll just be a slower adoption.

- Harsha Kadam:** It's a slower adoption. A couple of our customers are also talking about it. But we are yet to see in India at least I'm not seeing even anyone coming going in that direction yet. But I guess it will happen. I think see most of these new technologies get proven first outside of India.
- Participant:** I meant more from an export angle or outside India.
- Harsha Kadam:** Yeah. So, the development, the testing and the use begins to happen outside India. Then once it is becomes successful, then the cost competitiveness pressures build in, that's when they look at India. Till then then it's still okay to make it there and use it. So, it is it is there. We have heard about it; we are aware of it. But right now, if you ask me, are we going to get into it? I have no answers to it.
- Participant :** If you can touch upon the aftermarket.
- Harsha Kadam:** Which one the automotive or industrial?
- Participant :** Koovers acquisition
- Harsha Kadam:** Okay. Yeah, what would you like to know?
- Participant :** How is the growth post the acquisition?
- Hardevi Vazirani:** So, this year at least, I don't know if you've had a chance to go through the consolidated financials. But last full year in the calendar year, Koovers was over INR 70 crores this year, we expect it to be 2x. And it's more to understand why we went for that acquisition. It is a B2B platform. So, it is not only about topping up our inorganic growth, but also to penetrate into the service market. And thereby, we will be also able to serve our products and major advantages on the power of data. So, because it's the E commerce platform, we come to know which kind of products for which brands of the car, for which model of the cars are being ordered on this platform. So, you get the power of data. So, you get a lot of data transparency, that what is happening in this car parc space in aftermarket. These are the things that we are looking at when we look at Koovers.
- Participant:** On the railway side, where exactly are the product is used ? Is it used in locomotives or where else?
- Harsha Kadam :** Our portfolio is cutting across all applications, you probably want to start with the electric locomotives, the traction motors is one of the biggest areas where because the traction motors, they run on high voltage, and rightfully you need bearings with insulation coatings. And we make those products here in India. So that's one of the big businesses for us. And with the way electrification is growing or the demand for traction models is increasing. So, that is one application. Apart from that, of course, you do have some journal bearings, some gearbox bearings, they are the standard cylindrical roller bearings which we make which we also supply. Outside of that, if you look at the wagons, whether it's a freight or the passenger wagons, you will find the axle boxes, the bogies where the wheels are there. So, we supply the axle boxes completely, not just the bearing but

also the axle box assembled. We do that as well. Same is the case with metro trains again, so our portfolios there, it's not that it is not there, we have been there. Now with the improvement that or change that we are seeing in the railway as a sector, we believe that more and more new, better products technology products will be required. We are talking about Class K as one of the bearings we believe, and rightfully our products are getting homologated as well. So, the key to railways is to localize because they are very particular that you must produce in the country. And that they are very clear about so definitely in that direction or strategy to invest is there.

Participant : Today we are how much? Around 7% of our revenues given that so many orders have been placed in the last two, three years. Is it reasonable that this proportion should go up?

Harsha Kadam: The percentage you're referring to is assuming the other sectors don't run, only railways. Isn't it? What if the others also grow along with it. Seven will remain seven. So, to me, it's mathematics. So, to look at it as a percentage may not be the right way. Absolute numbers are we growing? Yes, we are. Can we do more? Surely, we can do more.

Participant: Asking is that you due change the product mix due to change in customer mix, will there be an impact on margins on operating margin because railway generally is a tender based business. I don't know how it is for us. So, will it be like margins will be lower in this segment?

Harsha Kadam: I think the way we should see is railway is not purely tender based. The core Indian railway business is tender based, but metros are not. Metros are not and also railways also transforming now you know, they have all outsourced now, the complete wagon manufacturing is privatized. So, there are a lot of private players who come in. What we are seeing is the wave now the business is going to be done as changing. With private players coming in, you know, it is opening up room for us to make the sales pitches, it's not just participate and attend. We can have a discussion and we can position our product. So, there's room for conversation that is happening.

Participant: Lastly, from my interest, so then we are operating margins are right now say 18- 19%. Historically, they are quite higher level used to operate at a lower level. So, should we expect these numbers to maybe sustain at these numbers or go down, go up? Or is it good enough for us ?

Harsha Kadam : Your wish is our wish.

Participant : We wish to have more

Harsha Kadam: If you wish that we should do more, we will do more, we have to do more.

Participant : This match can sustain?

Harsha Kadam: Surely. Because we are also committed that we want to deliver back to our stakeholders, our investors. Definitely we want to keep that. So hence, you will see that you make pose questions - why are you not in this sector? or in this application? you're weak? There's a strategic reason why we keep away from some of the

applications and some of the sectors. We believe it's better to not, we will have to address those things in a different way. But not by compromising the markets that we are clear.

Participant: Vitesco - I know it's too premature from an overall perspective. But I mean, I'm not aware if they are present in India, what's their size in India?

Harsha Kadam: Just to share with you, yes, they are present in India. And in the space, they are operating there quite a significant player. Strategically for us, this is one of the biggest wins going forward. Especially with the market moving towards EV you can make all the products which use mechanical methods, which we are good at, like motors, gearboxes, you can make all of that, even the thermal management module, which is a lot is on plastics and molding, you can do all of that. But the controller, the electronics, the software coding, that's a different ballgame. That was something missing in our portfolio, which now has been closed. That is also enabling us to offer the complete system rather than just offering motor. Because ultimately, if you look at the controller, that's where all the intellectual property is lying. And today, that is with us. So, in India, yes, they are present. And I can only see that this is going to enable us to grow more stronger in future in the electric vehicle space. Clearly.

Participant: Would it be possible to share what's the revenue size in India?

Harsha Kadam: Well, we have just started the dialogues now the acquisition process getting completed. So, we have started to engage with them, discussion process has started. So right now, we are still at a very nascent stage.

Participants : Do the OEMs do this inhouse? Controllers and motors? Or take it from external parties?

Harsha Kadam: See, ultimately, if you look at it, it's all about investing in that capability. The OEM wants to do it, they can do it. But are they doing it? We don't see them doing it because they believe that the controller is an area where only a specialized company knows, it's their domain area. Now that said, also look at it from the risk angle as well. The controller is the one that determines, and this is going on a car. Now, if the software has a bug, you can imagine what would happen to the performance. The stakes are also equally high with this offering. I think this is a very specialized area. And not many players are there. I'm only talking about the power electronics part, not many players- are there.

Participant: On of the questions these days has become customary with all the international companies - our market cap is somewhere around 5 billion euros parent is at 4.2 billion. So, we are higher than the parents market cap. And, of course, we have seen what one of your peers has done in India where they have sold on certain stake to deleverage.

Harsha Kadam: Was that good?

Participant: It doesn't matter right there. They had to do what they had to do. Right.

Harsha Kadam: I mean, so what's the question?

- Participant :** If you can give any color? Are there any such discussions?
- Harsha Kadam:** Nothing, it is what it is. You guys have infused so much confidence in the Schaeffler brand, we really appreciate that. And it's not something we did you guys have really put it on a pedestal. So, it's good for us, we really feel honored. But what does it do to us, as you know, the management team is, it has raised the responsibility that we have to live up to your expectations. We are putting all our efforts to make sure you keep us there.
- Participant:** Does the parent want to say that okay, you know, let's...
- Harsha Kadam:** The parent is very proud of us by the way. Very proud of what we have done it like they asked him how the hell are you guys doing it? I said, I don't know. I don't have a magic wand. We're working hard. We're doing it. But beyond that, I think there's no talk of it. We don't talk. They have their space. They have their own priorities there. We have our space; we have our priorities here.
- Participant:** There is a decent leverage on their book.
- Harsha Kadam:** Are suggesting something? No, nothing whatsoever.
- Hardevi Vazirani:** With Vitesco AG's valuations the scene is changing.
- Harsha Kadam:** Yeah, I guess that's good to change. Good point. Vitesco also was a listed company. So now their valuation was higher in Germany. With the acquisition, probably you will find that parity gap. But the good thing is, Vitesco has been a very good strategic win. Because this is this was a big gap. And you know, it was a struggle in front of the customer. I think that is behind us.
- Participant:** So, one last question. Do you see the possibility of improving margins? Because last one year a little weak on margins? As the demand recovers? What do you think we'll have some few bases improvement?
- Harsha Kadam :** We will make every effort. I wish our customers keep giving pricing every year. If it were that easy, but jokes apart, I believe our commitment remains that we want to deliver sustained profitable results. And we have done that we have shown in the last five years what as Schaeffler we can do in India. And so definitely all efforts will be in the direction to continue to sustain the profitable growth story.
- Participant:** Just adding to that, basically exports would be fairly profitable. So, is that primarily the thought?
- Harsha Kadam:** Well, it's been it's been now three quarters down. Have you seen the impact? Yes, it is definitely building the pressure. But then we are working harder. Other sectors are also profitable. Even the domestic businesses we have quite good profitability that it's not like that. Look at distribution or aftermarket business you know, automotive as well as the industry. So, we are committed to grow that as well. So that's where the focus is now. How do we grow the distribution business which offsets the impact of you know, the drop in export business

something we are clearly focusing upon. And compared to previous year we have seen already a growth in the distribution business.

Participant : How big is auto bearings?

Harsha Kadam: You're talking about automotive bearings or automotive aftermarket automotive?

Hardevi Vazirani: It is close to 8 to 10%

Participant : And then plus the aftermarket.

Harsha Kadam: Yes. That's overall.

Hardevi Vazirani: Within automotive aftermarket bearing portion is still lower. There it is more clutches.

(This document has been edited for improving readability)

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