"Conference Call of Schaeffler India Limited to discuss the proposed merger of INA Bearings, India, and LuK India into Schaeffler India Limited"

August 30, 2017

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Moderator: Good Day, Ladies and Gentlemen and Welcome to the Conference Call of Schaeffler India Limited to discuss the proposed merger of INA Bearings, India and LuK India into Schaeffler India Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury – Head of Corporate Communications, Schaeffler India. Thank you and over to you, Mr. Chaudhury.

Vijay Chaudhury: Thank you. Good Evening Ladies and Gentlemen, thank you for joining us on this call. As you know, we have made a very important announcement in the capital markets, and today, we have with us our group management, Mr. Klaus Rosenfeld – CEO of Schaeffler Group; Mr. Dietmar Heinrich – CFO of Schaeffler Group; Mr. Dharmesh Arora – CEO, Schaeffler India; and Mr. Satish Patel – CFO, Schaeffler India. I will now hand over the call to Mr. Rosenfeld for his opening comments and other management and followed by that we can have our Q&A session. Over to you, Mr. Rosenfeld.

Klaus Rosenfeld: Thank you very much Vijay, thank you very much operator, and thank you very much, Ladies and Gentlemen for joining our conference call today. As Vijay said, we have announced through the capital markets this afternoon a merger of the three existing Schaeffler entities in India and we invited you to explain and give you a little bit more background information why we are doing this, what is the rationale behind it, and what does it mean for the equity story going forward. I am sharing the presentation that you have on your screens and that will be made available on the Internet with my colleagues, Dietmar, our Chief Financial Officer for Schaeffler Group and Dharmesh, our CEO for India.

Let me start with a strategic overview and explaining quickly that transaction rationale and then hand over to Dharmesh. Page #4 gives you as an introduction some key figures for Schaeffler Group. Schaeffler Group is, as you may know, a global automotive and industrial Sapphire with revenues of €13.3 billion in 2016. We have outgrown the market since many years with a high level of profitability, our EBID margin before one-off effects in 2016 was 12.7%. We offer a wide range of products both in the industrial and in the automotive markets starting from little components to full systems. Our key success factors have always been quality, technology, and innovation. In fact, we are one of the companies that has the highest number of new patents in Europe every year. Our growth going forward is based on a well-defined strategy that we call Mobility for Tomorrow for focused areas in eight strategic pillars, clearly based on a global footprints with 75 plants and 17 R&D centers, and India, Ladies and Gentlemen, where we are present since more than 50 years and hold on average top thee market positions across different sectors is one of the key gross markets going forward, and that is why we have initiated this transaction today because on one hand, we want to simplify our structure in India, we want to reduce complexity, but we also want to lay the grounds and create a strong one Schaeffler entity that is able to continue and continue to outgrow the market.

Page #5 is very quickly the key numbers on Schaeffler for the year 2016. I will skip this page and go through the strategy page on page #6. This is important to understand because it is also the foundation for our growth plans in India. We have a clearly defined vision and mission that you also find on the Internet, we have focused areas where we want to play that is the whole area of Eco-friendly drives in particular relevant for the automotive sector, both for combustion engine and for electric vehicles or hybrid vehicles. We have the whole growth area of urban mobility be it in the two-wheeler sector or in the urban transportation sector in the city railways. Clearly as the third area, we have the intermobility, rail and an area of growth in India, but also aerospace and off-road think about the large agricultural sector here in India. In the focus areas 1, 2, and 3 only work with renewable energy, we are one of the biggest providers of wind turbine bearings, so wind is an area, solar is an area, but also conventional power generation.

You see eight strategic pillars, all of them are relevant for India as well. We are in automotive and industrial supplier, so it is not one or the other, it is both. We are a global company, we produce components and systems also relevant. We want to grow in particular e-mobility in industry 4.0 and digitalization and we see India here as one of the areas where that should be possible hence the overall group company is family-owned, so we are clearly guided by the values of a global family business. Page #7, over 50 years of progress in India, I leave that for your reading purposes. We started with FAG in '62 and since then have expanded our foothold year by year. Page #8 is interesting because it gives you more inside and who these three different entities are, you know Schaeffler India and company that is present since '62. We at Schaeffler AG hold a share of 51.3%. The main business of Schaeffler India is an industrial business with ball and roller bearings of all types for industrial and automotive applications, around 75% of the business is industrial business and 25 is automotive applications. The main manufacturing facilities are in Maneja and in Gujarat, and we employ around 1500 employees.

The two companies that will be merged into Schaeffler India as part of this proposed transaction is INA Bearings Limited located in Pune in India present since 2001, owned 100% by Schaeffler AG, main product focus is needle and linear bearings, as you may know INA is the world market leader in needle bearings, engine transmission, chassis, precision components rounded up, around 700 employees and as you see a profitable in the growing business with above-average growth of 15% in the last years. LuK is a company that is in longer presence in India since '97, also 100% owned by Schaeffler AG, main business focused is clutch and transmission components and systems, this is the nucleus also for our e-mobility competence and it will clearly add to the product profile and the corporate profile of this new merged entity. Here the main manufacturing facility is in Hosur and we employ around 800 employees. You see growth of more than 16% and you will also see a very decent EBITDA margin for this entity.

Just to give you on the next page is a very brief overview of the product spectrums and why this makes so much strength. Automotive, we are combining INA, LuK, and FAG, and that really makes a great offering. What is interesting here is that if you look at the page where you have highlighted the clutch packages, you see that LuK is coming with clutch systems and linings, you see that INA is bringing clutch release systems to the table and we will also use clutch release bearings from FAG, so clearly one of the examples why this merger makes a lot of sense to combine our product strength at the customer frontend, other examples like the transmission package and can also extend into adding going to the industrial division where we basically combine the FAG bearings knowhow and with the INA competence. Our distributors, we have a large distribution business here in India that is very relevant for us. We like this idea because they are continuously asking, can I get with my FAG bearings also some INA bearings, so that really drives this merger from the transaction rationale.

Let me sum this up, on page 11, we want to create one strong Schaeffler India entity based on our strategy of mobility for tomorrow, based on our excellent program that we call "Agenda 4 plus One" that clearly is driven by the idea of combining forces and also raising internal synergies, that means for India we want to create the leading Indian automotive and industrial supplier, a company that will have around Indian Rs. 36 billion in revenues, nearly 3000 employees and a strong manufacturing footprint with four dedicated plants in India. It will lead to a diversified and high-growth product offering both in the automotive and industrial segment. We see significant revenue and cost synergy potential that still needs to be quantified, it is early days, so we cannot give you a number here, but the teams will now get together and will work on this. There are obvious areas from the product side, but also obvious areas from the cost side, think about logistics or overhead cost, and all of this together will lead to a solid value creating opportunity for all stakeholders, we think we can extend not only in terms of margin, but also speed up the growth potential of this entity and thus create sustainable value for all our stakeholders, but in particular for our shareholders. With this, I would hand over to Dharmesh who will further explain these key for building blocks of the strategic rationale.

Dharmesh Arora: Thank you, Mr. Rosenfeld. Just expanding on this four key areas of opportunities for us, starting with just the opportunity of becoming one of the largest leading Indian automotive and industrial supplier, so I am on the page 12 now, so when you look at the size of the merged entity, the combined revenue are in excess of Rs. 3500 crores with the EBITDA of Rs. 568 crores. Within the bearing space, the Schaeffler India's current range of ball and roller bearings get comprehended with the INA range of needle roller bearings, linear bearings, spindle bearings to provide a complete portfolio of industrial solution, which also find wide application into automotive space.

In automotive space, the solutions of engines, transmission, and chassis which are our domain expertise of INA as well as LuK, attractive high-growth business is also coming to the portfolio of Schaeffler India Limited. The combined entity also has better capabilities in terms of building systems and solutions that are required towards the emerging trends of industry 4.0, e-mobility supporting our strategy of mobility for tomorrow. Slide 13 gives an example or illustrates the high-growth and very attractive automotive business and how that is adding value to the portfolio of Schaeffler India, so I have on the left most column there, the industry growth in terms of CAGR between 2011 and 2016.

The second column shows, in the same period, if there was a merged entity called Schaeffler India or is a Schaeffler Group, what the growth has been for the same period of time and for each one of this segment starting with passenger cars, commercial vehicles, tractors, two wheelers, and automotive aftermarket, you can see that the Schaeffler India's portfolio or the current revenues are shown in the red color, which gets added with a very large and high-growth attractive automotive business from INA and LuK portfolio to build it into a very, very strong business. On the right-hand side are some of the focus sectors that we all have been tracking very keenly in India whether it is the automotive industry, the evolving emission standards of 2020, the BS-VI standard or the emerging trends of transmission automation as well as the electrification.

The government has put lot of emphasis and focus in building up strong infrastructure starting with the big investments going to the Railways, improving the safety record but also investing into building new freight corridors, high-speed train network, Metro trains in many, many cities, building new locomotive manufacturing units in the country to renewable energy particularly focusing on wind energy and the focus in rural sectors which brings opportunities both in tractors and two wheelers for us. This combined entity now going to the slide 14, you can see as to how the share between the automotive and industry looks like. If you were to consider the current legal entities, three quarters of the business for Schaeffler India comes from industrial space and the remaining comes from the automotive. When you look at INA, it is exactly the other way around where the three-quarters of the business is coming from the automotive space and the one quarter coming from industrial. LuK is all automotive business and when you combine the three entities together almost 50% split of business is between automotive and industry providing a very diverse portfolio of business and sectors to the merged entity with passengers cars contributing about 30% of the revenue followed by two wheelers 12% and then it is followed by several industrial sectors, but very important than high-growth sectors like the Wind, Railways, tractors, and commercial vehicles.

When you look at our top customers on the panel of the right-hand side of the same chart, the Schaeffler India is very strong with many industrial customers namely here you see very familiar names, ZF, TVS, Premier bearings as a distribution company, Indian Railways, and many other two-wheeler manufacturers there. Suzlon, the big wind manufacturers. On the INA side, strong automotive business starting with Maruti Suzuki, Mahindra, Hyundai, Bosch, and so on. LuK is again very strong with automotive particularly tractor manufacturers you see here Mahindra, John Deree, CNH, Escort and so on, so the combined entity has a very wide portfolio and very wide presence with every large automotive and industrial manufacturer and aftermarket presence in the country.

Now, talking a little bit about the third opportunity there of the revenue and cost synergies and now I am on the slide 15 here. Mr. Rosenfeld gave some examples of the synergies in providing complete system solutions to our customers be it in the automotive space illustrated examples here being for the clutch or the transmission or in industry, for example, in the steel mills where we are able to bring the solutions from both INA and FAG in serving our customers. On the right-hand side there is an again an example of improving our reach in the marketplace by leveraging the vast distribution network that each one of the three legal entities has today, but as you can see there are opportunities of improving the synergies and may be using the current network and expanding their portfolios that they handle, there is absolutely no reason as to why we cannot add INA or LuK portfolio to a distributor in the FAG business today.

Another example of the cost synergies and this is on the slide 16. The two pictures there on the left-hand side, you see the current distribution and logistics warehousing network and you can see there are whole lot of arrows going back and forth between various locations in the country. The map on the right-hand side of the front page shows a simplified more efficient distribution network that we can build aided by the new GST implementation where the common warehousing, common truck, improved throughput on each truck provides significant cost opportunities in reducing our cost, improving our distribution and improving the lead time that the customer sees.

On slide 17 are some other possibilities when it comes to the cost and efficiency improvement be it in the sales and marketing front where apart from improving one face or providing a one face to the customer, providing a whole range of solutions under a key account management possibilities, to reorganizing our internal sales teams having a consolidated sales offices in many of the off-country locations are some of the examples of improving sales and marketing efficiencies. Similarly, on the administration side, there are lot of efficiency improvement possible when it comes to handling RFQs, order management or the invoicing and the documentation processing, the effort which goes into credit management, sales collection efforts, similarly there are opportunities to implement shared services concept in functions like finance, HR, IT, procurement, and internal sales. Going to the complexity of compliances that clearly reduces when you have rather than three different compliances to be audited and verified, now we have one single entity which provides an improved or a reduced complexity of compliance.

On slide 18, that shows the creating value for all stakeholders through higher growth as well as opportunities for expanding our margin. Individually, you can see that Schaeffler India in the last year has grown at a CAGR of 8.2%, INA and LuK, particularly INA in this case you see that their strength of participating in automotive have been outgrowing the industry by a much larger margin. The pro forma or the combined entity would be showing a growth in the same period of 10%, so the listed entity Schaeffler India today which has grown about 8% combined or a merged entity would be showing a growth of 10% apart from very much larger presence of 3500 crores. Similarly, on the margin side, on the EBITDA side, the combined entity improves its EBITDA margin from 9.3% levels in 2013 to close to 16% in Calendar Year ‘16. For the synergies of the cost side as well as on the top line revenue side, there is no reason as to why we cannot look for the margin expansion opportunities.

Now let me get to a little bit of the transaction structure and details around that and that is listed on slide 19. This morning the Board of Directors of all the three entities namely Schaeffler India Limited, INA Bearings India Private Limited, and LuK India Private Limited in their respective meetings approved the proposed merger scheme wherein the INA Bearings India Private Limited and LuK India Private Limited will be merged in to Schaeffler India limited. The appointed date for the proposed merger is January 1, 2018. Clearly there are lot of regulatory approvals and steps necessary in order to have the process of merger completed and that we anticipate will take up to

12 months of time. Some of the approvals are listed there, the Securities and Exchange Board of India, the Stock Exchanges, approval of majority of public shareholders, approval of majority of creditors, and the NCLT approval both in Mumbai and Chennai.

The very important area there listing down the swap ratio for every 65 shares of INA Bearings India Private Limited, the promoters will be issued 10 shares of Schaeffler India Limited and similarly for every 35 shares of LuK India, 10 shares of Schaeffler India Limited would be issued. With this, the promoter group, Schaeffler India, is holding which is currently at 51.33% in Schaeffler India Limited would be going up to 74.13% in the merged entities. Important to point out that evaluation analysis has been undertaken by independent chartered accountants and in this case PwC which was appointed by Schaeffler India Limited and Walker and Chandiok jointly appointed by INA Bearings and LuK India Private Limited. The fairness opinion to Schaeffler India was provided for by the ICI Securities.

The next chart 20 is a graphic representation of everything that I have talked about in slide 19, so let me just leave it for your absorption and similarly on slide 21 shows the pro forma of the post-merger entity Schaeffler India Limited with all the key financial numbers shown on this chart. Again that is something a handout available with you and I will be happy if you have some questions around that. Slide 22 shows some of the key timelines and the approvals and of importance here is the shareholder approval which we anticipate to go out to the shareholders in the last quarter of 2017 and seek their approval by Quarter-1 2018 with the closing of the transaction anticipated in Quarter-3 of 2018. Going to the last slide, slide 23 again just reiterating the key messages, the merger will combine the strength of Schaeffler globally, Mobility for Tomorrow, quality, technology, and innovation along with the strength of the three entities in India to create an unified entity with strong leading presence in automotive and industrial space.

It adds attractive high-growth automotive business to already strong industrial business of Schaeffler India for a very diversified product offering. There are synergy potentials both in revenue and the cost side and some of the examples that we share in these slides which again have to be quantified, but through the complimentary product portfolio there are opportunities for the revenue side and similarly there are cost efficiency possibilities in phase, marketing, distribution, and administrative functions. Last, it is all about creating value for all stakeholders and through creating a very strong one Schaeffler India entity in the country. With that, I will turn it back to Vijay to take the call.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Sir, my first question is regarding evaluation that you have arrived for the combined entity, what was the basis that the company used to arrive at the particular evaluation?

Klaus Rosenfeld: Let me explain this, this was a very thorough evaluation process performed by the various entities supported by independent valuers, PwC and Grant Thornton. There was a fairness opinion that was the basis for the decision by the board today to approve the proposed transaction. As Dharmesh explained, the transaction will lead to three party merger two exchange ratios, one for INA and one for LuK. In the INA case is 65 shares that can be turned into 10 shares of Schaeffler India and for the LuK entity, it is 35 shares that can be swapped into 10 Schaeffler India shares, so what I can say is it has been a very professional thorough evaluation process using a variety of evaluation methods with a fundamental evaluation approach where we think that is a fair way to offer this transaction to you.

Sandeep Tulsiyan: What would be the combined entities growth guidance that you would like to give over the next maybe from a one-year perspective, from a three-year perspective usually the company shares the annual growth guidance for Schaeffler India, how would the combined entity, what kind of a growth it can be over the next one to three years?

Klaus Rosenfeld: We have initiated this transaction today, the board approved the merger, we now need to go to the regulatory approvals and all of you know that this has been done in a professional but also highly confidential manner, so the relevant teams that we need to hammer out and prepare a full joint business plan for the next year can only start their work now, so there is no joint plan at the moment that we will also incorporate the synergies and a long-term view. What I can tell you is what Dharmesh already indicated and what you saw also from the numbers here, all the entities have outgrown the economic growth in India and the market, so we think that it is good growth potential but in terms of exact guidance for next year that would serve as a target that we want to achieve or will achieve, you need to be patient for some time. As soon as we are out with a notice to shareholders and that will be hopefully after the approval sometimes in the fourth quarter, we will present and give you more information how we see the growth potential going forward.

Sandeep Tulsiyan: My last question is if we look at the India business as a percentage to your global sales, it is still very low much less than 5%, so what is the growth plan, how does the global management look at the India business, what kind of addition opportunities can emerge out of the Indian subcontinent and are there any other entities now operating outside these entity which the parent has 100% ownership in, these are the two last questions?

Klaus Rosenfeld: Thanks for these questions. I will address the last part of your question first, there are no entities outside this, that is one of the reason we want to streamline this structure, want to reduce complexity and operate out of one strong entity. You are right when you say that proportionately our Indian local revenues compared to the overall revenues of Schaeffler Group is still small, but that does not mean that there is significant growth potential. If you see how fast the Indian market is growing, if you see how fast we are growing with growth rates of more than 10% year by year, I mean this will clearly share of revenues from India will increase, but once again please give us the time to prepare a proper plan from all the management teams that will come together here to give you a more solid guidance. Directionally, I can only say we clearly intend to outgrow the market both in automotive and industrial with all the prerequisites to do this and I think this will be a fantastic growth story going forward.

Moderator: Thank you. The next question is from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: From an ex-FAG shareholder we can see that transition from components to a system certainly helps, but more from a quantitative point of view wanted to understand how does it help say for a bearing company which is limited to a bearing company if we were just FAG here, how can we move to higher pedestal compared to our competitors post this event because there was this one Schaeffler program that you have been running for the last two to three years, having one common company, how does it help like say if you could given an example like some participating at a bearing supplier to a transmission like a steering column or something of that sort, by becoming one system supplier, how can you gain share of business further, and secondly, in terms of the cost synergies, in your presentation you have highlighted how you can rationalize your logistics structure, but the main cost structure if I look at the existing company it is largely raw materials and employee costs which are the main cost, so what are the benefits that we could see in terms of sourcing and also in terms of employee count?

Klaus Rosenfeld: Let me say one thing upon it and then I hand over to Dharmesh because he knows the business much better than I do. Our experience in Germany and we are running the same strategy in Germany globally like we are running and we want to run here in India is that we are divisionalized, we have an auto and an industrial division, but the underlying products manufacturing footprint is very much shares its footprint in terms of technology. If you produce a bearing, you are using basic technologies that you also use if you produce a clutch with these systems. It is all about best-in-class German precision manufacturing where you know how to manufacture steel in high precision manner and this knowhow that includes hardening, includes heat treatment all of these kinds of things is a combined sort of year long experience driven competence that we can extend if we sort of merge these entities together and run it from one footprint, that is the overall logic, I hand over to Dharmesh for more explanation on the business.

Dharmesh Arora: Srinath, you mentioned about one Schaeffler, I think that is the demonstration that what you see are the announcement that you see today is a part of the series of actions that we started implementing some years ago and the fact that we had been trying to see as to how the three companies can work lot more closely will also allow us to have a very quick and seamless transition and implementation of the merger of the three companies here. Now, what we have been doing in the past year is trying to see as to how the three companies can still maintain their legal status. but we look at opportunities where we can collaborate together, now once we have a merged entity, it makes it much more easier, so the way we want to work versus the way we are structured, I think both the things are the same and I think that is one big change that I see coming from this merger that we did not have in the past. One of the example I showed on the cost side, for example, when it comes to logistics, when it comes to warehousing, when it comes to tracking, when you have one legal entity's material moving on a truck, one legal entity's material being in a warehouse or one legal entity's material being on one invoice, that is much easier than the same amount of material spread between three different legal entities, so clearly I mean those are just couple of examples that I wanted to illustrate by which you will recognize that having one entity , we are able to realize the full potential of being one Schaeffler India versus what we have been trying to do in the last three years.

Srinath Krishnan: I will rephrase my first question, post this event how can we, A, rather participate in new sops are gain in share of business with our existing customers, more from a revenue perspective, how can that help?

Dharmesh Arora: Again, I am referring back to the presentation that we with you, let me just rephrase that example on the clutch side when an automotive company decides to do a newer platform, they need a clutch system assuming it is a manual transmission, they need clutch plate, driver-driven plate, pressure plate, and so on which is expertise of LuK then you probably need the hydraulic release system something that we launched two years ago, very technically advanced product, again from the LuK portfolio both produced at Hosur, but when you have these two products you still need the rest of the components to make up a complete clutch system. You do need a clutch release bearing, which is a INA portfolio produced in Talegaon today and within that clutch release bearing you have actually a ball bearing which comes from our portfolio at Savli out of FAG, so here you can start seeing that you go to a customer and you start talking as a key account manager that here I can give you a complete solution for the clutch, you are not going to sell only one part, you need to be talking of the complete system and here are opportunities that three portfolios are put together, you have a better possibility to realize a complete sale of the complete clutch system versus trying to sell only the clutch lining.

Srinath Krishnan: Secondly, in terms of the R&D domestic engineers present posts this even when all the three entities combine together, how will it help in reducing the turnaround time and getting back to the customer, satisfying his needs?

Dharmesh Arora: We continue to invest in building technical capabilities in the country and for us the manufacturing capability and the engineering competence and capability go hand-in-hand, so we have at all times the engineers who are going to Germany on long-term training programs bringing that capability and competency back into the country, so this is an ongoing process. It is a fact that we are putting all of these under one house, the fact that we are even more closely lying and structured with the global company, it only opens up new opportunities to enhance or to expedite this process.

Srinath Krishnan: My last question till now you have "in the region for the region" philosophy, with this event may be your cost structure also improves, does this provide an opportunity for exporting to markets like Europe where the cost pressure due to maybe transition to electric vehicles are change in technology is getting more intense?

Klaus Rosenfeld: We like the idea of Make in India and with this new platform which is unified platform and also gives us the opportunity to localize further and see where we can strengthen export business, but once again it is part of the plan that the management teams need to put together, so please do not ask for a final number here, but the answer to the question, definitely yes, there is an opportunity.

Moderator: Thank you. The next question is from the line of Jinesh Gandhi from Motilal Oswal Securities. Please go ahead.

Jinesh Gandhi: My question pertains to synergies, you indicated about logistics and other synergies, would there be synergies on the manufacturing operation side, would operation be fungible between three companies or that would not be possible?

Klaus Rosenfeld: So far we will start with the product footprint we have four plans, I think the key issue is how to build this product and footprint going forward, how to invest into the product footprint, we are not planning to merge two plans, we would rather see how we can allocate what we have in a more efficient manner under one umbrella, under one roof, but there is no sort of cost synergy by sort of reducing the number of plans, I think the opposite is true, we want to invest into the plans and see what we can do in further optimizing and organizing our production footprint here in India.

Dharmesh Arora: What it does is to open up the possibility that if we were to based on the manufacturing competency available in the plant, we can be lot more flexible going forward as to which plant should that product be produced, so I think to that extent it opens up flexibility and opportunity for us.

Jinesh Gandhi: Second question pertains to the management team, the senior management teams would be same across all the three companies or all the managing directors and senior management team will be different across three companies?

Klaus Rosenfeld: The idea clearly is to merge the 200% entities into Schaeffler India so all Schaeffler India platform will be managed out of Schaeffler India that is the remaining entity and that management team will be led by Dharmesh Arora and we will now through the integration process see how we do this, it is obvious that our CFO in India is Satish Patel who is a long-standing support of our strategy and a highly competitive person, he will be the CFO, but we need to see how we develop this management team going forward with the automotive and industrial colleagues and who should be on this team something that needs to be done as part of the integration and further development process.

Jinesh Gandhi: Actually what I meant was pre-demerger in the existing form would the senior management team be different or jointly managed by the existing Schaeffler India team?

Klaus Rosenfeld: As I said, there will be continuity in a sense that Dharmesh is going to run this management team and how we are going to extend it and build it over the next couple of months is something that needs to be investigated, but we will definitely assure continuity with the top people and look at the gaps that we have at the moment then see how we can do this.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, one question on the LuK and INA side, there is a substantial improvement in margins which we have seen in the last three to four years of its operation, if you could comment on the margin side about its sustenance or reasons for the same and wanted to know the import content in those operations vis-a-vis the import content in case of Schaeffler India's operation, so this is the first question that I have?

Dharmesh Arora: In the last year, the automotive space has been growing quite well, the commercial vehicles, the tractors, I think many of those sectors has seen good growth and with that the technological innovation and the content in these vehicles is also increasing, as we have the new emission norms Euro-IV implemented across the country, we have the transmission automation picking up, so these are all very important and key spaces for us where our portfolio of INA and LuK has been experiencing could growth. Similarly, on the plant side, we have made some significant investments in 2011 and 12, and these investments have started maturing in terms of the utilization of the plant, so in the last four years the utilization of this capacities that we had built up has been increasing and again those are areas from where we have been benefiting in terms of the improving margin profile of both INA and LuK. That is something that I wanted to share with you, the automotive space is expected to continue to grow. I think if you look at the projections, I think automotive space is expected to grow 8% to 9% and we are similar technical changes in front of us, you call it Euro-VI or the BS-VI emission norms to be implemented in 2020 and similarly the consumer expectation in terms of the content and the technical changes in the vehicle are also expected to continue to grow.

Pritesh Chheda: Sir, about the import content or trading component in case of those companies' vis-a-vis Schaeffler?

Dharmesh Arora: LuK has been doing the clutch business for a very long period of time and we got a very strong competency both from the product engineering, manufacturing and localization perspective there. Typically when a new product line or new technology is brought into the country, you typically start with a larger import content until the whole supply base matures and understands the complications and the requirements of producing that locally so that it is a sort of transitionary phase, but I would say that LuK has a very high local content levels. INA, we have in the last year launched many new product lines and as those product lines are maturing as we speak, the volumes are continuing to ramp up, we continue to increase the localization of those products and similarly for the FAG product that the two plants in Savli and Maneja, we have already high level of local content for the past for the finished bearings which are produced in those plants.

Pritesh Chheda: Just on the utilization side of these assets, what were the utilization of these assets?

Klaus Rosenfeld: Can we come back to you?

Pritesh Chheda: No problem. Lastly, I just want to check one thing on the valuation side, the acquired entities have been given about 25% to 30% higher valuation vis-a-vis Schaeffler India on the trailing number basis, if you have any comment to share on the recent slightly premium valuation given to those operations?

Klaus Rosenfeld: Once again I can say we have gone through a very thorough independent evaluation exercise with two different companies that have ended up in a fairness opinion, it is not only a question of margin, it is also a question of gross prospects, different value approaches, different multiple and that is the outcome. I do not know what other cases you are referring to, but in specific case to us, the valuation seems to be fair and proper.

Moderator: Thank you. We will take one last question from the line of Shradha Sheth from Edelweiss. Please go ahead.

Shradha Sheth: Sir, just wanted to understand taking forward the cost synergies, on a consolidated basis, are we looking at higher margins with the kind of cost synergies on a combined basis as a entity as compared to Schaeffler India, so if we look at Schaeffler India, we were doing almost 11% kind of PAT margins versus almost 7% to 8% for LuK and INA, so on a combined basis with the kind of cost synergies potentially could we look at higher margins and Schaeffler India standalone?

Dharmesh Arora: At this point of time I think we have visualized some of the opportunities we do have and as Mr. Rosenfeld mentioned, all the detail work will be done in the weeks to come and the months to come, so this is something will be a matter of investigations and working through the details of realizing those opportunities, but I think the important thing to note is the attractiveness of the various portfolios, we have mix of both industrial and automotive business and the automotive space has pretty good growth prospect. Similarly if you look at industry, there are focus growth sectors whether we call it Railways, wind energy, two wheelers, or tractors I think those are very, very attractive and high focus sectors for the country and we have pretty strong presence in those, so we will definitely benefit from the growth in this evolving sectors and with a strong presence, I think that would be a good opportunity.

Klaus Rosenfeld: Let me add one more point just again, numbers will come later on this, but we had some months ago here a meeting with all our distributors from the Indian subcontinent and what we learnt is that many of them said why cannot we get from you, Schaeffler India, the full spectrum that also INA offers. It is complementary, it would give us a much better sort of proposition in the markets and again it is only what our customers and distributors said, what we are realizing now and they clearly indicated to us simply by offering a needle bearing with a ball bearing together one from FAG, one from India, we can extend, we can grow further and that is what we are building just one example of our story on. We will as soon as the plans come together and as soon as they are approved and looked at, we will give you guidance for what these combined entities can achieve but please understand for the time being, it is premature, it would not be prudent to give something on this, we need to do some more work on this, but we will come back to you.

Let me finish the call by saying, we thank you for your interest. It is overwhelming how many people dialed into this call and it is a proof that we are doing from our point of view something that is interesting to you and we think as I said at the beginning with this step, we will build an even stronger Schaeffler entity and create a market leader in automotive and industrial supply in

India based on the global strategy of the group. Thank you very much for listening, back to Vijay for the final comments.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. Vijay Chaudhury for closing comments.

Vijay Chaudhury: Ladies and Gentlemen, thank you for joining us today in the evening for this call. I understand that lot of questions have remained unanswered, but if you can send them across to my email ID, that is, vijay.chaudhury@schaeffler.com, we will be very happy to get back to you as soon as we can. Thank you.

Moderator: Thank you. On behalf of Schaeffler India Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.