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"Schaeffler India Limited Results Conference Call for Quarter-3 ended September 2017"

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MANAGEMENT:	**MR. JUERGEN ZIEGLER – CEO, EUROPE REGION, SCHAEFFLER AG** **MR. DHARMESH ARORA – MANAGING DIRECTOR AND CEO, SCHAEFFLER INDIA** **MR. SATISH PATEL – CFO, SCHAEFFLER INDIA**
MODERATOR:	**MR. VIJAY CHAUDHURY – HEAD OF CORPORATE COMMUNICATIONS, SCHAEFFLER INDIA**

Moderator: Ladies and Gentlemen Good Day and Welcome to the Schaeffler India Limited results conference call for Quarter-3 ended September 2017. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury from Schaeffler India. Thank you and over to you, Mr. Chaudhury.

Vijay Chaudhury: Thank you. Ladies and Gentlemen, Welcome to the Q3 results call for Schaeffler India Limited. Today, we have with us Mr. Juergen Ziegler, CEO of Europe region for Schaeffler AG; Mr. Dharmesh Arora, Managing Director and CEO for Schaeffler India; and Mr. Satish Patel, CFO, Schaeffler India. I now hand over the call to Mr. Arora who will take you through a short presentation on our results and the merger update and the management can provide columns and after that we will start the Q&A. Over to you, Mr. Arora.

Dharmesh Arora: Thank you Vijay. Good Afternoon, Ladies and Gentlemen, we just announced our Quarter-3 results this afternoon, and hopefully, you all also have a copy of the investor presentation that was released and also uploaded on our website, so I would reference this handout primarily and try and walk you through the pages as I go through that. It starts with giving you a little bit background of the macroeconomic situation in India as we view it and then going into our own financial results that we announced this afternoon followed by a short update on the merger that we had announced on August 30, 2017, and finally I will summarize that with some key takeaways.

I am now on the slide number three, talking about the macroeconomic numbers, I think we all know that the GDP growth over last some quarters has been kind of on a declining trend, some of that can be from the global impact from the global environment, but others are we could associate to manufacturer our own creation maybe in India, but again good thing is the 5.7% growth that was recorded in Quarter-2 is still a very healthy and respectable growth. Our forecast is as the GST implementation get settled down, the last quarter of 2017 and the first quarter of '18 should start seeing positive developments. On the consumer price index, it remains at a very healthy environment; of course, there are some challenges coming from the global oil prices that is moving upwards, but still it is in a very healthy range. The very important thing on the core industry and the IIP very relevant for manufacturers like us are also seeing positive developments consistently for last several months.

Coming to slide number four, within the core industry most of the sectors have seen very positive growth, steel, coal, and electricity in positive terrains. Cement production had seen some losses particularly in the first month of the year and that could be attributed to the demonetization late last year, but the good thing is it seems like it is recovering and getting back to the level we had seen prior to the demonetization. Slide number five, the automotive industry or the mobility sector, the main story here is really the agricultural tractors backed by the government's push on the rural sector, good monsoon, and also the general recovery in the tractor industry, this year we have seen spectacular growth, 19% year over year increase in the industry numbers. Passenger vehicles have also done well, 8% growth, and the good thing is that the commercial vehicles are also coming back and recovering from BS IV implementation transitionary impact that was seen in April and May time period. Two and three wheelers similarly have gotten to the mature growth levels that we had been seeing between 4% and 5% levels, so that is the sort of background of economy and now let me move to the financial updates, which I am going to the slide number seven.

Our Quarter-3 result was INR 5103 million, which is a growth of 7.4% compared to the immediate previous Quarter-2 of 2017 and also higher by 4.2% to the corresponding quarter of 2016. The growth comes from pretty much across the board, but primarily if I was to highlight I think automotive certainly contributed significantly to that passenger cars, commercial vehicles, tractors, two wheelers have done quite well. Similarly, the good thing is that in the Quarter-3, distribution business has started recovering from the GST impact and August particularly September are very encouraging in terms of recovery on the distribution side. On the other hand, we do see some challenges in the wind business due to the new laws or as far as the tariffs are concerned at the auction which have been established and many of our customer's, wind turbine manufacturers, have delayed their production plans and that is something this year the softness both for Quarter-3 and probably running into the Quarter-4 as well. When it comes to EBT margin, 906 million for the Quarter-3, 2017, for a margin of 17.8%, this is 8.2% higher than the previous Quarter-2, 2017, and also 11.8% higher than the corresponding quarter of 2016. The profit margin improvement and particularly the maintaining the margin compared to the previous quarter was largely the result of sales growth as well as positive sales mix for us.

Coming to slide number eight, our cumulative nine-month performance, for the nine-month ending September 30, the total revenue was 14,621 million. As you can also see the comparison between Quarter-2 and Quarter-3, Quarter-2 to some extent was flat compared to the Quarter-1 primarily because of the distribution business getting impacted due to the GST which now we start seeing some recovery here and the Quarter-3 has grown quite well. On the EBT margin basis, the nine-month running EBT margin is at 17.8% which is 1.6 percentage point higher than the same time period of 2016, and again this development is because of positive sales growth, favorable sales mix as well as our plant and the operational performance have been delivering good positive results.

Going to the slide number nine which shows again the level of information in terms of our nine-month performance highlights and it talks about apart from EBT, the EBITDA as well as EAT margins, I think most of the information at least from the net income and EBT I have covered in my previous charts, so I will probably just leave it for you to absorb and if you have at the end of the conference here some questions around that. Moving to slide number 10, which is the information that we started showing from the time we announced the merger on August 30, here we are showing the performance of Schaeffler India Limited for the results of Schaeffler India Limited, but also the two privately held companies, INA Bearings India Private Limited and LuK India Private Limited and as the merger was announced where both the unlisted companies INA Bearings India Private Limited and LuK India Private Limited are proposed to be merged into Schaeffler India Limited to form this pro forma company, Schaeffler India Limited, so we have shown the results of all the three entities on a separate basis as well as the combined results on a pro forma basis for Schaeffler India Limited.

Key takeaways here both INA and LuK also have experienced good growth during the first nine months of this year, 16.3% and 15%, respectively for INA and LuK, and similarly the profit margins or EBT margins have also either been maintained or improved compared to the same time period of last year. On the pro forma basis, the combined entity achieved a revenue of Rs. 29,731 million in the first nine months, which is 10.6% higher than the same period of last year. On the EBT margin level, the combined entity had a margin of 14.7% which again is 1.3 percentage points better than the last year levels. INA and LuK were largely aided by their strong presence in automotive industry, which both are from the engine, chassis, and transmission systems have done particularly well. The commercial vehicles, passenger vehicles as well as tractor industry has done quite well, and that has resulted in to strong revenue growth for both INA and LuK. Similarly, the consistent improvement in EBT is led by sales growth as well as strong performance on the operation side, so those were the financial highlights of Schaeffler India Limited as well as the other two entities on the table here. Now, let me walk you through some updates on the merger that was announced on August 30, 2017.

I am now on the slide number 12. This is the timeline of the merger projects that we had shared with you on August 30. Of these, we have made the requisite that application now to BSE, NSE, as well as SEBI for approval of the merger scheme. The next stage for this is to receive the necessary approvals from the regulators and these are expected, we hope by end of November or latest before the end of the year. All the subsequent activities as they are planned are still scheduled to be done as they are shown here, of course, subject to be receiving the approvals from SEBI and stock exchanges in time as they are shown on this chart. The final closure of the transaction is still scheduled for Quarter-3, 2018.

Moving to slide number 13 and slide number 14, let me start on the slide number 13. Last time when we announced the merger, we had shared some qualitative ideas as to what are the main synergies and opportunities from this merger and the small little slide that is depicted on this chart, that is the chart we had shown to you where we had talked about the opportunities in bundling, where we are able to create larger sales opportunities with our customers as well as the synergies coming from the large distribution channels that each one of the three legal entities today have. On the right-hand side of this chart now, we have quantified meanwhile the possible synergies which we believe are possible to be realized within the next five years on an annualized basis, so from the bundling opportunity where we can increase our content per car on the next platforms that will be sourced by our customers, we would be able to do better system solutions have increased content from transmission automation space, bearing sets as well as other evolving technologies. We also have opportunities of creating better after market kit opportunities where we can provide the complete system solution for our garage and the mechanics in order to do service jobs on the vehicle, so these bundling opportunities we estimate can deliver us up to Rs. 4000 million of revenue synergy within the next five years.

On the distribution side, the expanded geographic coverage as well as the increased throughput that could be possible once we put all our distribution network together, we think that can give us between Rs. 560 and Rs. 700 million of revenue synergy. The total synergy of these two comes to up to 4700 million INR. Similarly on the cost side, which is on the slide 14, there are possibilities on optimizing our warehousing and freight movement through reducing the overall cost of freight by leveraging the volumes of all entities, maximizing the utilization of trucks, and also enhancing the engagement of specialized third party logistics service providers. Similarly on the efficiency improvement, we are looking at our sales organization, our field sales force as to how their scope of work can be enhanced in such a way that first of all the customers see a one face to us at the same time the efficiency of their work can be improved. On the functional cost efficiency, similarly finance, HR, IT, and procurement provides us the opportunity. We are also looking at the reduced complexity from the compliance perspective since the single legal entity provides us better possibilities of this compliance cost reduction.

Overall, among these two areas of cost reductions, we think there is opportunity of up to 400 to 500 million INR on the cost basis within the next three years. Cost, we believe that we can realize in a shorter time period and our forecast is that within three years we should be able to realize up to 500 million INR on an annualized basis. With that, let me summarize and come to the final key takeaways, which is on the slide 16. Overall, we believe the economy is moving in the right direction and it is expected to improve after the transitionary impact of GST are starting to fade away. Automotive remains strong, raw materials like the steel, mining, cement are continuing to improve. Wind, yes, show some signs of weakness in the face of new tariffs which are being established. Our Quarter-3 performance reflects improved sales and earnings and we believe the Quarter-4 outlook remains positive and finally the merger of INA India and LuK India into Schaeffler India remains on track and we are targeting to get this done by Quarter-3 of 2018. With that, I conclude the content that we want to share with you and then have it turn it over to operator.

Moderator: Thank you. Ladies and Gentlemen, 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: Thank you so much for arranging this conference call, I think it would really help in building our understanding about this business over a period of time as we get to interact with the management regularly, so thank you for that. The first question is if you can share information in terms of the sales breakup of the company on a quarterly basis and also for the nine-month period, so it would help us evaluate further as to exactly which segments have done well in this particular quarter and the nine-month period?

Dharmesh Arora: When we look at the Quarter-3, 2017, the main recovery really has been in the distribution business in the last couple of months of the quarter which in Quarter-2, 2017 had faced significant headwinds. Similarly on the automotive sector, the commercial vehicle particularly have delivered strong performance in Quarter-3. The tractors throughout the year have done very well so on the automotive sector side, commercial vehicles, tractors, passenger cars have done well and on the Quarter-3 particularly, the distribution sector have recovered quite well. If I look at the nine-month period, we did not have a pretty strong growth on the wind sector for the first six months growing at almost 33% for the first six months compared to the same corresponding period of 2016, but the Quarter-3, 2017, has seen some slowdown when it comes to the wind.

Sandeep Tulsiyan: What I was asking for is that the sales of 4.9 billion that you have reported in 3Q, as a percentage if you could tell us how much percentage of that is constituted by the automotive, industrial, and the exports that the company does and also within that if you could share between automotive and industrial what is the respective breakup between the OEM sales and the aftermarket that is the distribution segment that we refer to or may be in the way you share in the AGM the way this is broken up in percentage terms, even that would suffice?

Dharmesh Arora: Of the total sales in the first nine months, automotive for Schaeffler India Limited as the legal entity has constituted 16% of the total sales have come from automotive. Now, let me just caution you that some of the things like two wheelers and tractors for that matter, we call them industrial, it may not be the normal industrial practice, but I just wanted to caution, so 16% in this cases is primarily passenger vehicle or light vehicles as we call them. When we look at the other way round, the mix between exports and the local sales exactly 16% is also export from India, so out of the total sales 16% has come from export business and 84% of the businesses is local sales in regional India.

Sandeep Tulsiyan: Sir, secondly I would want to know currently what is the capacity utilization across all our manufacturing plants and what is the CAPEX plan of the company over the next two to three-year period if you could highlight that?

Dharmesh Arora: We had shared the information at the merger announcement, I think we have shared some capacity utilization information and in the last three months those have not significantly changed. The CAPEX investment wise, we also had mentioned that in the last some years, we have been consistently as a group among the three entities we have been investing at a level of between €15 and €20 million each year for last several years. Going forward particularly for the next two years 2018 and 2019, we intend to increase our CAPEX investment to somewhere between €40 and €50 million each year, so combined for the next two years we intend to invest up to €100 million into building new capacity, enhancing our product portfolio, and creating new capabilities and competencies in R&D and development space.

Sandeep Tulsiyan: If you could highlight what would be the specific areas where we look to enhance our capabilities specifically any areas where Schaeffler does not have a significant presence in new plant to enhance that?

Dharmesh Arora: Localization always remains one of the key area for us, so there are opportunities for us that we can improve and increase the local content rate in India, so that will be something that we are focusing on very deeply on. We are increasing the overall capacities in certain areas. While from the new product perspective, we have recently started manufacturing turbo bearings, for example, for Railways, that is something that we would like to continue to expand our capabilities in that space. There are opportunities for us in the DGBB Gen-C bearing to do more quantities of that.

Today, we have an installed capacity of 62 million pieces per year of DGBB bearings. These are high efficiency, low noise, small DGBB bearings typically going into motorcycles as well as electric motors and we have plans of expanding the capacity and our reach on these products. These are from the perspective of FAG or Maneja and Savli. Similarly at INA, we would be expanding on the product portfolio that we have been building, so one of the product we had talked about at our merger call was the hydraulic lash adjusters and finger followers. These continue to have more interest from our customers as they launch Euro VI or BS VI capable compliant engines or power trains and we see increasing demand coming for products like HARFF.

Sandeep Tulsiyan: Sir, lastly whatever you can share as much as you can share in each of the sub-segments, if you could let us know which are the larger OEMs that you cater to both in PV, CVs, two wheelers?

Dharmesh Arora: A good thing is we can call every automotive company in India as our customers, so we have a pretty wide portfolio of customers we supply to be it in passenger vehicle space, commercial vehicle space, tractor, or two wheelers, and I think it would not be too difficult to guess that yes, in the passenger vehicle space Maruti is one of the largest OEM and reflecting that they are also among our largest customers, but we also have a very strong similar business relationships with both local as well as multinational companies in India.

Moderator: Thank you. The next question is from the line of Udit Bokaria from Catamaran. Please go ahead.

Udit Bokaria: Sir, just wanted to understand if I look at your cost structure can you just give a breakup of fixed and variables because of the merger of the two entities, will you see any benefits on the fixed cost structure part of the side?

Satish Patel: The synergies that Mr. Arora said on the cost side if you see the efficiency improvement that is all largely coming from the fixed cost rationalization and the efficiency improvement largely in the fixed cost area. Variable cost of course would remain pro rata even after merger and more or less because of the larger volumes of business we will have certain benefits on the variable cost side, but the benefits largely comes from the fixed cost rationalization which were part of the synergies on the cost side.

Udit Bokaria: Can you quantify it as well like previously how much percentage of sales were they and going forward, how much you expect it to be?

Satish Patel: The amount of synergy because of the fixed cost rationalization, we have been able to quantify and we have announced that as well as part of the synergy rationalization. In terms of percentage, how much improvement would it make it is very difficult to calculate and provide you right now because different companies, premerger have different structure of the cost, so the variability in automotive business fixed and variable is quite different than the industrial business. Industrial business has larger material content which is not the case in case of automotive business.

Udit Bokaria: Sir, my second question is among your customers you were mentioning that going forward you will see CPV increase, so just wanted to understand if you can tell in which is it, two wheelers, four wheelers, or commercial vehicles, where are you going to see the maximum CPV increase and is there one particular customer which is adopting the latest bearing technology, where you will see which customer also which you will see the maximum CPV growth like if you can share?

Dharmesh Arora: Today, if you look at the business mix of the three entities, LuK for example has very, very strong presence in the tractor industry. We have a very strong presence similarly in commercial vehicles as well as sports utility vehicles. When you look at the INA business, we are extremely strong when it comes to both the diesel as well as the petrol passenger cars and maybe to some extent SUVs. Now when you come to FAG business, on the automotive side they have businesses on passenger cars when it comes to wheel bearings and also two wheelers for similar bearings, so when we now are combining the three entities the strength and the relationships that each one of the three entities have can be put together to have a larger presence with each one of those customers to increase like you said content per vehicle and we see opportunities of bringing the solutions that we might be doing on a passenger car engine from INA portfolio and applying that also on a tractor engine, for example, with the strong relationship that LuK already enjoys with those customers and this happens because we are implementing what we call a key account manager concept. We have one face to the customer who understands the complete portfolio and can work with the customer being able to leverage the complete portfolio and delivering solutions that can go across all the three entities.

Udit Bokaria: Sir, I wanted to understand but basically if I look at your two-wheeler segment, four-wheeler segment, and commercial vehicle segment, where do you see the outperformance being the highest for you going forward in the next three to five years?

Dharmesh Arora: When you say outperformance, you are comparing it to the industry growth?

Udit Bokaria: Yes, comparing to the industry volumes of that segment?

Dharmesh Arora: If you look at the performance of the LuK or INA for that matter both are growing at about 15% to 16% levels and we all know as to the automotive industry or passenger vehicle industry for example is growing at about 8%, so I think you clearly see the outperformance that the two entities which are primarily automotive are growing much faster than the level that industry is growing at. When you look at the two wheelers, two wheelers are a little bit more sort of mature and high-volume business and that industry in the last at least couple of years has grown at about 5%, 4% levels and we clearly see the opportunity of improving and increasing the content for two wheelers, we should be able to outperform the industry growth on that area as well.

Moderator: Thank you. The next question is from the line of Jayesh Shah from OHM Group. Please go ahead.

Jayesh Shah: Hello Mr. Dharmesh and team, first of all thanks a lot for hosting this conf call, great initiative and I hope this is a regular affair.

Dharmesh Arora: That is for sure, it will be.

Jayesh Shah: Thank you. My key question is my understanding correct on the merger synergies because when you talk about 470 crores of revenues annualized over five years, on a current base it seems you are looking at 12% revenue growth only due to the merger plus the overall volume growth that you would normally have?

Dharmesh Arora: What we have done which is to really look at various opportunities we may have when it comes to synergies and how much of that could be quantified, and then we are not necessarily kind of looked at the growth rate between now and let us say five years from now 2022, but we have really looked at program by program, customer by customer and then come up with what we believe are the true synergy potentials when it comes to the revenue. Now, of course based on the conversations we have had in the past and we have said that our past performance, if that is an indication, we would continue, we are targeting to continue to grow kind of the performance we have done in the past and we also see further revenue synergy potential of up to 4700 million INR.

Jayesh Shah: Right, but the way I was thinking is that you have your natural growth of around 12% to 15% and on top of this you would have the merger synergy growth of 12%, which means can we look at 20% kind of growth?

Dharmesh Arora: That is something you all know that we do not necessarily always comment on the future numbers, but again I will try and bring it to the consolidated growth of the pro forma company for the last year has been at about 10% levels and we have some of the positives happening in the economy, the way the automotive industry is expected to grow, the way some of the core industrial sectors are expected to grow, we think we can definitely do that kind of performance going forward of the merged entity. In addition once again, we believe there is opportunity for us of up to 4700 million on the top line basis from the synergies.

Jayesh Shah: You will have your normal organic growth of whatever 12% to 15% and you should have some additional merger benefit as well, so while I am not asking you to put a number, directionally is my thinking right?

Dharmesh Arora: Directionally you are right, again I am not commenting on the numbers, but the rest of it is right, I mean we want to do better than what we would have done if we were just three companies and that betterment we think is up to 4700 million INR.

Jayesh Shah: Is this going to be steady or is this back ended?

Dharmesh Arora: This is what we are showing is on an annualized basis that we can achieve in five years from now, so what happens for example when you look at automotive, product programs are long gestation period, a product program may last five years to six years, so we think as the customers are starting development of their next platform, we would be able to better work with them in improving our content per platform with them and those would typically be realized in four to five years from now, hence we have put out a number that we are showing could be realized within the next five years and again this number is on an annualized basis.

Jayesh Shah: Similarly, cost synergies when I look at it and compare it your last year EBITDA, it roughly talks about 100 BPS of EBITDA increase, I am saying 50 crores on 590 crores on the base?

Dharmesh Arora: You have to again put the timeline to it, we are saying that we should be able to realize that in the next three years, so it is not something.

Jayesh Shah: Yes, I am talking of three years or four years?

Dharmesh Arora: Right.

Jayesh Shah: Secondly on the CAPEX that you have talked about €100 million, how much would go on the automotive transmission side which may be vulnerable to the EV transition that may happen on the engine side kind of thing?

Dharmesh Arora: I may not break up right away for you, but let me just comment that the investment of this 100 million is going towards both automotive and industrial sector and at the same time, we continue to build our stronger business on the conventional power train engines, transmission, as well chassis and there is a tremendous pull as well demand from the customers in order to meet the € VI requirement or the BS VI requirements of 2020. At the same time, the changing customer preferences towards transmission automation, for example, or even need driven from small sizing or downsizing of power train.

Jayesh Shah: When I look at your current turnover of clutch and transmission related products of 800 crores out of the total of 3600 crores, in the medium-term because of Euro norms and all, do you think this segment would grow faster and then the rate may moderate depending on how the EVs take off?

Dharmesh Arora: I think you will agree that the projections for EVs are extremely difficult to be made precisely at this point of time just considering some of the policy changes which have been happening in the last some months I would say, so it is extremely difficult to have a very precise projection, but we are working very, very closely with our customers to understand their plans as to how they feel the EV evolving and to make sure that we can support them whichever way the EV direction goes, whether it is the full electric vehicles or hybridization as a transition step towards the full electric mobility.

Jayesh Shah: Okay, but at the short-term there could be spike due to Euro norms in terms of growth rate for this segment?

Dharmesh Arora: At this time, for sure I see that the conventional power train is continuing to be refined, to be made more efficient and there is tremendous opportunity on that space both from the legislative perspective as well as from the consumer preference perspective.

Jayesh Shah: Lastly, have things stabilized on the GST front for you in terms of trade channel and market and customer segments?

Dharmesh Arora: I would say stabilized, yes, whether, we are kind of at the same levels that we were at the Quarter-1 of 2017 when it comes to distribution business, so we have just come back to the levels that we had at that time, so I would say most of the big challenges we had on the GST seems to be going away and we have seen consistent uptick in the pull from the distributors in August and then September was even better than August.

Jayesh Shah: Would you have seen any restocking and destocking significantly in terms of whatever you have seen in the replacement market?

Dharmesh Arora: Yes, for sure, if you look at our Quarter-2 numbers, we face significant challenges on our Quarter-2 growth numbers due to the destocking happening in the whole distribution value chain, particularly the months of May and June were not very exciting for us and then starting August and September, we have seen some level of restocking happening in the distribution channel.

Jayesh Shah: The restocking is complete by now?

Dharmesh Arora: It will be hard to predict since we go out from distributors to retailers and we are talking about 3000 retailers all over the country and of course we try to work with our customers, which in this case our distributors who then are working very closely with their customers, retailers as well as the end customer, it will be hard to kind of make a judgment on that whether the restocking is complete or not, but we certainly see an uptick and an improvement in the overall pull.

Moderator: Thank you. The next question is from the line of Jay Balalji from Kapoor & Company. Please go ahead.

Jay Balalji: Sir, particularly if you take the seasonality sector is it that the third and fourth are the biggest quarter in terms of the revenue part?

Dharmesh Arora: Typically on the automotive side in the past we have seen that December kind of at times slows down particularly in tractors for example after the end of the monsoon season, but apart from that we do not see whole lot of seasonality when it comes to the OEM customers. On the distribution side, yearend are typically strong month for us, so going forward I think we maintain a very positive outlook for Quarter-4 and we hope that we will end up with another good quarter.

Jay Balalji: Sir, what is the update on the new plants that was setup how are the utilization levels looking up and is the ramp up totally done?

Dharmesh Arora: Is that the plant at Savli you are referencing?

Jay Balalji: Yes Sir, the new plant that was?

Satish Patel: Savli is already the new plant, we have already acquired even the land for the future expansion, what we are doing is we are expanding now the plant in terms of setting up of new line as the demand increases, so that is how we are expanding the capacity at Savli, but in terms of infrastructure and the land we have sufficient amount of the land and infrastructure available for some years.

Jay Balalji: On the update of the Railway part, if you could throw some light at the AGM also the shareholders were requesting for a 2020 roadmap which we have got this time with the merger process in-line, how are you seeing the Railway as a vehicle of giving growth engine for us that can be the biggest pie of the volume going forward, what are the initiatives we are taking and how is the Railway is going to continue in the coming years?

Dharmesh Arora: The Railways business we are very, very excited with the way the government is looking at the Railways and the growth opportunities at Railways. There is a significant budget allocation that we have all seen that the government has made. Upgrading the existing infrastructure, creating of the freight corridor, the various metro train projects which are coming up at various cities for the increasing urbanization, and finally the projects which are also moving towards high-speed train network, so those are all areas of possible opportunities for us. We already have a pretty strong business at Railways with both Indian Railways as well as the private manufacturers like Bombardier, Alstom, and also for the future locomotive projects which are coming up in Bihar both GE as well as Alstom, so I think we already have a pretty strong business there. Areas that we are further growing from the product perspective is the turnover business that we had introduced to you that we have established the manufacturing capabilities in our plant in Maneja and we will continue to grow that business. Similarly, in the third quarter of this year, we started refurbishing the turbo bearings which are coming out from the Delhi Metro Rails, so those bearings are now taken from Delhi to our plants in Maneja, refurbished and then they are brought back for the Delhi Metro application.

Jay Balalji: Sir, lastly about how is the electric vehicle theme going to play for the bearing industry, what is our understanding and how the requirement is going to be different from the ones that we are today addressing to?

Dharmesh Arora: That certainly has been an area of lot of interest of late. We all agree that electric mobility is something which is coming. I think the question really is at what phase and what would be the adoption rate with the end consumers. When it comes to electric mobility for us we have been very active since several years and we have created solutions on transitioning of our customers from conventional engine power trains to more electric mobility solutions, so when it comes to hybridization, we have solutions from all the way from mild or the micro-hybrids to very strong hybrids, high-voltage hybrids up to P4 solutions including complete EXL which replaces the power train completely, so those are various solutions. We do have globally outside of India particularly, there are many projects continuing or going on where the customers both in North America and in China particular and with our close customers in Europe, so there are many live projects going on and couple of them will be going into production in the Quarter-4 of 2017 as far as the EvoGrid is concerned. Coming back to India, yes we do understand the projection or the statements which are coming out from the leadership in India and we remain very closely watching that, working with our customers and we will certainly make sure that we are geared up to support this transition as it happens in India.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Systematix Shares & Stocks. Please go ahead.

Priya Ranjan: My question is more related to what kind of localization level we have into different entities as of now, my sense is probably the sole fact will be more localized because it has been there for since long and do we see some kind of benefit of localization coming into INA and as well as LuK?

Satish Patel: We have localization as you rightly pointed out in different companies, we have 70% local, 30% imports in case of Schaeffler India Limited, that is likely more in case of INA India, INA India has about 65% local and close to 40% imports and LuK India is largely local, so LuK India is over 95% local. We do have very aggressive localization strategic plan that is also reflected to a certain extent because of the increased benefits coming from the synergies because of the higher volumes and to a certain extent also reflected in the synergies, we have localization plan to increase from the present level whatever by up to 7% to 10%, and this also not only focusing on the finished goods localization, but also what we call as the true localization which includes the localization of components, so we do have also on the material side and component side imports and we want to work for localization in that segment as well.

Priya Ranjan: So 7% to 10% localization increase can happen annualized for next couple of years or it will take longer period?

Satish Patel: Over the mid-term, over next five years.

Priya Ranjan: Sir, just on the business outlook for wind, most of the guys have even your competitor or the peer group has pointed out the pinpoints in the wind, so do we see that wind is reviving in the near term or it is actually kind of we will face some kind of problem in wind going ahead?

Dharmesh Arora: I think it might be little early to predict exactly how things will evolve. You all know one of the recent option which was opened up early in October subsequent to that I think some of the state electricity boards are also getting into the field now of running their own auctions for buying wind power, so I think this is something we will have to watch as to how things evolve. One thing is very certain with the kind of commitments, the government has made towards the overall CO2 reduction, greenhouse, emission reduction, clean power generation and so on. Long term, this industry can only grow in a very healthy and positive manner. We do have some transitionary impact here from the new levels of tariffs being established, but working with our customers, we look at the demand pattern, looking positive for 2018 in terms of again getting back to the levels of new capacity installations they did for example in 2016 which were the record levels of 5 gigawatts, so we do hope that the '18 would starting seeing some recovery on that but long term I think we all are very confident that wind will maintain strong presence in the overall energy segment.

Priya Ranjan: Sir, in terms of passenger car what percentage of our revenue will be coming from power train components?

Dharmesh Arora: Now you are talking about just the legal entity Schaeffler India or as a group in India?

Priya Ranjan: As a group in India, so automotive I think you have mentioned about 16% of your business which is primarily passenger vehicle and light vehicle, so out of which how much will be probably the engine-related business?

Dharmesh Arora: The engine business would be close to 22% to 25% of overall business would be coming from engine.

Priya Ranjan: The rest will be chassis, wheel, and etc.?

Dharmesh Arora: We have 53% overall automotive business, so half of that let u say it comes from engine business and we have transmission, chassis and also automotive aftermarket.

Priya Ranjan: Next question is on two wheeler business, the two wheeler business, do you see increase in content even their happening for in BS VI or it will be business as usual again the industry growth rate what you will follow?

Dharmesh Arora: We do have projects with the two wheeler manufacturers to improve the engine combustion efficiencies, so from the product that we traditionally used to supply primarily out of FAG as bearings, those bearings are continuing to become more efficient, so the Savli Gen-C bearings for example are highly efficient bearings, so manufacturers continue to look at how their transmission losses from the bearing perspective can be reduced, so those are some of the projects, we have with them, we are working with the two wheeler manufacturers on introducing solutions into engine side bringing the kind of solutions we already have on passenger cars or the four wheelers and trying to adopt many of those solutions into their two wheeler as the emission standards are going to become more stringent in future, so to answer your question for sure we are targeting to improve our content per two wheeler in future.

Priya Ranjan: Just on railway business, what kind of opportunity size we have as of now and what is our addressable market in terms of product offering we are doing and what is the Railway share in total business as of now and I am talking about the entire consolidated entity which is one Schaeffler India?

Dharmesh Arora: Railway businesses is primarily the business coming out of our FAG business on the industrial side and that constitutes about 6% to 7% of our overall group business in India. The growth that we see in the Railways going forward with the kind of projects coming up, we certainly see that Railways would be growing at a faster pace for us than our overall industrial business in India, so I think we have opportunities from both Indian Railways as well as the private manufacturers as they are ramping up production and presence in India.

Moderator: Thank you. We take the next question from the line of Shrinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Shrinath Krishnan: The first question was on the industrial large-dia segment, sometime back gradually you started localizing there, what are the thoughts that has the acceptance increased and would there be further localization in that space, and secondly is on largely on commodities, we have seen sharp increase in commodity trades recently, will that I understand you will have some degree of **56:52** _____, but will there be some impact due to which during this later half of this year and next year too?

Dharmesh Arora: On the large-sized being, we are enhancing the capacity at Savli on the large-sized bearing and also increasing the localization rate there. Today, we do bearings up to close to 1 meter at Savli. We are intending to enhance that portfolio to go up to 1200 mm, for example. The bearings from Savli go into wind applications, they go into raw material space like steel mills, cement plants, mining and so on and in our opinion long-term those are infra, clean energy related sectors which will continue to grow well and we are continuing to invest in creating more capacity as well as improving the level of localization.

The other question on the commodity prices, yes, we do see commodity prices going up particularly in the steel in the last month. Our approach always has been that we work very closely with our customers like you rightly said, there are contracts in cases where we are able to pass through good part of these increases working with our customers; others, we work diligently within our operations to try and see how we can pick up sufficient projects in other areas, cost reduction, VAD sort of projects where we can negate the overall impact from the material cost, so far in the year we have not seen negative impact coming from the material cost alone, in fact we have been able to improve our performance on the operation side, but again 2018 is something we will have to see as to how the prices particularly the steel prices evolve and develop in 2018.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints this was the last question. I would now like to hand over the floor back to Mr. Chaudhury for his closing comments.

Vijay Chaudhury: Thank you Ladies and Gentlemen for joining this call today. Should you have any further questions, please send out an email to me, that is, vijay.chaudhury@schaeffler.com. Thank you for joining us and have a good day.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of Schaeffler India Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.