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“Schaeffler India Limited Results Conference Call”

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Moderator: Good Day, Ladies and Gentlemen, and a very warm welcome to the Schaeffler India Limited Results Conference Call for Quarter 2 ended June 30th, 2018. As a reminder, all participant lines will be in the listen-only mode. 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 '*' then '0' on your touchtone phone. 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, sir.

Vijay Chaudhury: Thank you, Ladies and Gentlemen, good afternoon. Welcome Schaeffler India Limited Q2 Results Update Call for 2018. Today we have with us Mr. Dharmesh Arora – Managing Director and CEO, Schaeffler India Limited; Mr. Satish Patel – CFO, Schaeffler India Limited. I will now hand over the call to Mr. Arora to take us through a short presentation and his comments on the performance. And then we can get on to the Q&A. Over to you, Mr. Arora.

Dharmesh Arora: Thank you, Vijay. Good evening, ladies and gentlemen. Hopefully, you all have a copy of the Investor Presentation that was uploaded on to the website in the last minute. So, I will reference the slides and walk you through our performance for the quarter 2 2018.

As always, I will begin with giving a little update on the economic environment and the market developments going into the Financial Results of the company, would also provide a view of the pro-forma company with all the three companies together, a little bit on the merger update and how it is developing and then get into the key takeaways from the presentation.

So, I am now on the Slide #3. So, our overall view on the economy I would say is fairly positive. The market and the economic activity was fairly robust in the last quarter. Of course, the GDP growth numbers for the Q1 2018 are at this point of time available which show the economy growing at 7.7%. I think trend wise it is on the right upward trend there. The consumer price index or deflation of course remains something to watch out for, primarily driven from the surge in the petroleum prices or the crude prices. What is most relevant for us is of course the industrial activity and we usually look at the IIP growth numbers within which of course our core industry growth. In the last some months the IIP has remained fairly positive, though showing a declining trend from the highs of 7s and 8s that were recorded late last year.

Part of that is the core industry which has kind of slowed down as well and it could probably be coming from the slowdown in the refinery products, fertilizers, crude and the steel output which has kind of not been keeping sort of that high level of growth that we had seen for a while. Of course, the bright spots – a lot of coverage in the newspapers about India becoming 6th largest economy, surpassing France, expected to surpass Britain to become the 5th largest. The lot of focus around how the geopolitical environment around the globe is developing, and particularly how it impacts to us as the global so-called trade wars or the protectionism policies which are continuing to rise around the globe.

Going to the next slide which picks up four of the eight core sectors that we have picked up here, all of them showing fairly good positive results, cement, steel, coal and electricity here that continue to support the IIP growth. Some of the others that have not shown here had some softness when it come to refinery, fertilizers, etc.

Next slide which actually is talking about mobility has been really the strong story here. Two-wheelers have seen a spectacular growth of 22%, granted that is starting from a low base affect of 2017 where at the beginning demonetization had some impact to the sales of 2017. We still believe, even if you were to discount for that factor, the two-wheeler industry is certainly seeing 8% to 10% growth in this year.

Passenger vehicles have seen stable 8% growth, more or less in line with the kind of growth we had seen last year around 7.5% to 8% which is nice. And now when you come to the commercial vehicles, a huge growth, 44%, once again either beginning of the year we may have some low base effect or probably in April, May due to the implementation of BS-IV emission regulations last year the sales had really dipped in April and May. So, compared to that of course we are seeing really nice growth here. And we are pretty excited about the way the commercial vehicles have been developing.

Recent announcement from the government about raising the axel loading may have some negative impact in the months to come. But of course, the auto companies will have to bring those new trucks on road. But in anticipation of that there could be some softness here in the months to come and something we will watch out for.

Tractors have continued to see good month-over-month growth, 27% for the year and continuing a very strong pace. So, that is as far as the market is concerned.

Now, let me get to our own financial performance for the quarter 2 and I am now on the Slide #7. For the Q2 2018 our sales was Rs. 5,437 million, which is in line with the numbers we had seen in Q1 2018, but when you compare it to the same quarter of 2017, it is a growth of 14.5% for the first half of the year 2018. We have grown 14.3% compared to the same first half of 2017. The growth is coming from both industrial and automotive sectors. Of course, the automotive OE has seen a faster pace. But please do not forget that automotive OE is a smaller portion of our overall business when it comes to standalone entity Schaeffler India Limited. Industrial also has seen a very strong growth of 14.4% in this quarter compared to the quarter before.

Exports on the other hand have been lower in this quarter compared to the quarter 2 of 2017. Some of that was our intentional play. The domestic market had been pretty strong and in order to serve our customers locally in a nice way we had to curtail some of our focus on exports and drive the capacity to deliver products to our customers locally.

The mix has not changed whole lot, but if you were to look at 2018 mix for the first half, 54% of our sales came from our own manufacturing locally in India between the plants of Maneja and

Savli, which is more or less flat in percentage wise compared to the same mix we had in H1 of 2017. Like I mentioned, I think there was some mix change when it comes to other two areas, exports did come down as a percentage overall mix of our sales, 14% of our sales which is down 3.4% in terms of the sales mix. Traded products on the other hand increased the mix from 28% to 32% now and this was once again a strong growth in the local market and we made sure that we had the products available from all the group companies around the globe in order to serve the local markets.

Going to the next slide, on to the profitability part, so the EBIT Rs. 945 million for Q2 2018 which is down 3.6% compared to the Q1 2018. But when you compare it to Q2 2017, the same quarter of 2017, the growth was about 12.9% here.

Compared to the Q1 we do have challenges coming from the rising steel prices and that suddenly has affected our material cost, our input cost. At this point of time some of the expected or anticipated price realization or compensating price realization have not yet kicked in. But with the time lag that we normally have we anticipate that in the quarters to come we will be able to price some of these increases into the market place and be able to realize these impact from some of our customers. When you look at the overall H1 EBIT, that is more or less in line with the H1 of 2017.

I am now on Slide ##9 where you have further details of these numbers, but I think I have covered most of these in the graphical representation in the previous charts. So, let me just pause here for a while and then I can move to the next slide.

The Slide #10 is the performance of all the three legal entities and also a consolidated view on the pro-forma basis. So, having talked about Schaeffler India Limited already, INA Bearings India Pvt. Ltd. had a total income of Rs. 3,279 million which was a growth of 8.7% compared to the same quarter of 2017. LuK India Pvt. Ltd. returned a income of Rs. 2,737 million, which is a growth of 27.7% growth, pretty strong growth in LuK India. And just to remind you that LuK has a very strong presence of course in the clutch business but more importantly a very strong business with tractor industries, commercial vehicle industries and so on. And those two sectors have really been growing very well for us. And that is driving very nice growth that you see here at LuK India Pvt. Ltd. Overall, I would say there is a consistent revenue growth. On the pro-forma basis, the company would have grown 14.8% year-over-year for the quarter 2 2018 for a consolidated income of Rs. 11,374 million.

Now, let me give a quick update on the transaction:

As you are aware that we started the merger process on August 30th, 2017, with the announcement of the proposed merger. We have been progressing quite well with all the regulatory approvals. As we speak, in the last months we have now received approvals from NCLT Chennai bench already for the merger scheme and the final approval awaited now is from the Mumbai NCLT. And we are still expecting that this approval should be coming in Q3 2018, as was expected for the final closure of the merger transaction within this year, within the quarter four of calendar year 2018.

So, with that let me close my presentation before we take your questions. In our opinion, economic outlook remains fairly robust and positive. We have had better sales in domestic market in both automotive and industrial. EBIT performance has been largely in line with the previous year but certainly we do see pressure from the material prices, steel prices which in months to come and quarters to come we hope good part of that we will be able to realize from the market. On the transaction side the NCLT Chennai is in place, Mumbai awaited and finally of course the merger that we will close is only the legal integration. But to realize most of the benefits and synergies from the merger we have tremendous amount of transformative work which is being undertaken in the company so that we can continue our post-merger integration activities and realize the benefits out of this merger.

So, with that I come to the conclusion of my presentation. And I hand it over back to the host here.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Sir, my first question is, are we facing capacity constraint significantly in the domestic manufacturing facility? Why I ask this is because if I see your traded revenues have gone up significantly on a QoQ basis. If I do some numbers, our traded mix was around 27% last quarter and in first half it was 32%, which means that in second quarter it was almost 37%. Now, is it that because the growth is coming from auto segments which you manufacture locally, so is there a problem that you have capacity constraint in India that is the reason you have to import from your sister companies globally? If you can throw some more light on this.

Dharmesh Arora: So, yes, I think you know our business model quite well that we have a fairly large product operating portfolio, we have always traded products and brought products into the country, the ones that we do not necessarily produce in the country and make them available to our local customers here for the quarter particularly and for the year I think the growth in some of the segments has been fairly strong and certainly when it comes to either availability of those specific products or the capacity expansions which cannot happen overnight there is always some light behind that. So, we make sure that we are able to participate in that market growth and bring those products from other places as necessary. So, certainly your observation is fairly correct that the traded product mix has gone up. But with our continued focus and objective of continuing to invest in the country, create capacities we hope that we will be able to reverse this trend in the quarters to come and once again make sure that our local manufacturing is supporting the sales in a larger way.

Nishit Jalan: Sir, in that sense can you just talk about your CAPEX plan and when should we expect capacity to increase, I am talking particularly about the Schaeffler India the erstwhile FAG part, because just to understand, how soon can the traded mix come down because that also has a bearing on your profitability as well, because gross margin on traded goods is substantially lower than manufactured goods, right?

Dharmesh Arora: Yes, for sure. I think we have shared our plans with you in the past that we are increasing the capital outlay for the country. And again maybe over here I am of course talking about Schaeffler India Limited but also the merged entity that in the past as a group we have typically invested EUR18 million to EUR20 million per year. And as we had shared with you that this year we have doubled that investment in the country, and this investment is being made. As we speak, the plant in Pune is under construction or a second plant building is at the plant site in Pune is under construction. We will start constructing a new plant building at Savli location by next month. And these additional space that will make available will also help us with creating more capacities and be prepared for the continued robust growth that we seen in the months to come.

Nishit Jalan: So, basically the new capacities will commission by sometime towards end of this year, is it a fair assumption to make?

Dharmesh Arora: I would say may be more like into the early part of the 2019 calendar year. We would have the plants constructed, but by the time you have the machineries installed and ramp up of those machineries and so on, I think the ramp up would be more starting from quarter one and continuing in the year 2019.

Nishit Jalan: So, then basically in second half also your traded mix will continue to remain high, right, because since no new capacities are coming and demand continues to be robust that means the traded goods mix will continue to be high in second half as well?

Dharmesh Arora: Well, depends on the product mix and the sectoral growth as we experienced. One other thing, even though it may not be big but I think I could have mentioned that is the fact that with the implementation of new structures with the GST the country of origin and maybe some of the packaging or repackaging that we had in the past though the old excise laws have changed. So, products which were in the past some value addition was done in India either through inspection, lubrication, packaging, etc, could have been classified as local manufacturing; according to the new GST laws now they are fully classified as traded products, imported products. So, some of this change in the sales mix is also resulting from the implementation of the appropriate requirements according to the GST.

Moderator: Thank you. Our next question is from the line of Shyam Sunder Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sunder Sriram: Sir, our industrial segment seems to have grown much stronger this quarter. Is there a favorable base effect here in the last quarter? And if you can help understand which industrial segments drove the growth?

Dharmesh Arora: Yes, so in the last year as we recollect I think with some of the challenges either from demonetization or GST implementation we did have come challenges in the early part from demonetization and maybe towards the June-July timeframe with the implementation of GST. So, there is a little bit of base effect there, but certainly we see the market growing much faster in this

year. And particularly for us some of the sectors like two-wheelers have seen very strong growth, we have seen very-very strong growth in of course tractors but also construction equipments, so equipments like back-hoe loaders and excavators and those kind of equipments which are buoyed by the growth in the infrastructure sector have been seeing very nice growth. We have similarly seen very strong growth coming to us from railways business which we have been able to pickup this year. And then finally the industrial distribution business which to a great extent last year was affected during the course of the GST implementation has also been very-very strong. And we continue to see very strong order book in most of these sectors.

Shyam Sunder Sriram: Sir, in the industrial distribution would be roughly about 30% in Schaeffler India if I am right, please correct me if I am wrong. And sir, this growth in the industrial distribution, are you seeing more of a revival in the overall industrial growth in the country, is that what is reflecting in our growth as well? And on the railways business, can you add some more granularity in terms of is it because of some new products or how is the outlook there?

Dharmesh Arora: Certainly, I think in the beginning of the year or towards the late part of last year and the beginning of this year we have seen lot of re-stocking happening in the distribution business which was largely sort of emptied out or vacated during the course of the GST implementation. So, certainly we have seen strong growth coming from having the appropriate inventory levels available at all points of the value chain in the distribution. So, that has largely driven very strong growth in to the last few months of the last year and the first few months of this year. But now we are also seeing continued requirements and demand from both OEMs as well as MRO, market through distribution, and that certainly points to a sustained demand as the capacity utilization of the equipment and the productivity levels of those equipment is being maintained in many of these places. The demand is continuing to stay fairly strong. And based on the forecast that we are seeing from the distributors and talking to the them, talking to the end customers, we think that is fairly sustainable for at least the short-term or the medium-term term here.

Shyam Sunder Sriram: On the railways business have we started supplying any new products or what is driving the railways business?

Dharmesh Arora: Railways I think in some ways is also a tender based business and at some point of time I think we have now been able to prime that demand well. And we have the ramping up for example the TAROL business now starting to happen, some of the approvals which were necessary to build that business we have meanwhile being securing. So, all of that is really building the pipeline for us to really play a stronger play or a stronger role in the railways business.

Shyam Sunder Sriram: Sir, in terms of margins last quarter you had indicated that there would increase and customs duty on imported components there would be 100% basis point impact. With the current reserves what has been the impact because of that and how much can be attributed to RM price inflation?

Dharmesh Arora: So, when you look at the import duty impact which was primarily announced on the automotive components, so that does not affect as much the Schaeffler India Limited legal entity's business,

but it does impact to the large extent the INA's business because that is where we have the automotive components imported which go either into the finished assemblies that we produce and then supply to our customers. So, the import duty impact is primarily at the India level for the Schaeffler India Limited or the LuK India Limited which is to a great extent local, we do not have as much of an impact from the import duties.

Shyam Sunder Sriram:

Sir, INA's revenue seems to be have grown at a slightly lower pace, there the passenger vehicles contribution is more than 60% there, any additional granularity in terms of this will be of much help.

Dharmesh Arora:

Yes, the growth in INA was more of sort of an organic growth in this timeframe. We have not had pipeline of new products to be introduced, so as you just rightly said that most of our INA business comes from passenger cars or passenger vehicles and the industry there has grown between 7.5% to 8% during this timeframe. So, our growth is kind of little bit more in line with the industry growth. The content per car or we have not been able to drive very high product and the content growth in INA during this timeframe, in the sense we did not have those plants launching at this time. In addition, yes of course we do have capacity utilization situation where our current plant is completely full and that is the reason we are investing in building a new plant building. So, it is kind of a transitionary affect where the new capacity we are starting to invest, we are building but it has not come yet on line, so you see kind of a transitionary affect that they will kind of slowdown here. But we do not expect that to stay at that level too long.

Moderator:

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

Udit Bokaria:

Another question related to INA. In the past you had mentioned that there will be a lot of new products which will come from INA post BS-VI, so can you just talk about that? And the second question is, is market share gains possible once the capacity of INA comes into play?

Dharmesh Arora:

Yes, I think we do have the intend that we would like to outperform the market growth and tentatively I would say that we will always target to grow twice as much as the market grows. And that is only feasible when you are continuing to focus on your content per vehicle in this case. There are trends which will allow a window of opportunity for that to happen, you rightfully said BS-VI is one of them. As there is more content required to meet the evolving emission norms it opens up new opportunities. And many of these forward trends may not necessarily, the OEMs in many cases may not wait until April of 2020 to introduce these forward trends, they may have a cadence of continuing to launch or bring those forward trends already into the market ahead of the time in order to be fully prepared. I expect that already between 19% and 20% you would start seeing some of those benefits coming into our own opportunities as well. This is a little tricky and difficult thing to measure, particularly for our automotive business since it is a pretty large spectrum we have, and it is very difficult to kind of look at us as a company and then say let's compare us to so and so, it might be very-very difficult to have another company with a similar kind of portfolio. But at the same time when we are outperforming the market, when we are growing twice as much as the market does, and with the new product launches and so on our

objective is to certainly gain market share and be a sort of a full service provider when it comes to both automotive and industrial solutions to our customers.

Udit Bokaria:

And sir one another question, if I look at your operating profit excluding the other income, then it seems like operating profit is either flat or has degrown, is it just because of the commodity price increase and mix issue or what is the main reason for that? And the second is, like in this quarter we purposely mentioned we wanted to lower exports but in going forward do you think like in India at least 15% to 20% of the sales will always come from export and that could be stagnant, like that you can assume as the right mix which the company is targeting?

Dharmesh Arora:

Let me probably take the second one first and then maybe ask Satish Patel to probably address the financial part. I know you mentioned that we have intentionally sort of restricted exports, obviously that is not our preference, we would not like to restrict the opportunities. But when you have ex amount of capacity to allocate is much easier and better to allocate that capacity to the local market because that is where our future is and you are able to convert that production into actual sales and actual consumption because you have less lead time. So, clearly it is a win-win for everyone involved here and that is what we tried to do. Long-term, yes, I think based on the product portfolio and the business model of the Schaeffler Group, we think there will always be space for us, particularly in industrial area or the bearing area to always have a good basket of exports to the group companies around the globe.

Satish Patel:

Your question pertaining to the operating profit decline if we exclude other income, now if you see this is a development in this quarter, if you look at over the past one year, even excluding the other income the operating profit remains quite strong, at least better than the previous quarters. However, in this quarter yes there is some impact and the impact is coming from couple reasons. The first is the commodity price increase, the steel price increase which impacted this quarter and possibly some improvement of that because of the recovery might come in the coming quarters. In the second quarter it is slightly adverse sales mix a Mr. Arora explained about some decline in exports and that also to a certain extent impacted the results for the quarter. So, there is some change in the sales mix and the impact of the steel price. But we do not expect that going forward the situation would remain like this. So, like in the past we would have some sort of recoveries as well as the improvement in the sales mix and the stability of the operating income would be regained.

Udit Bokaria:

So, exports is generally a higher operating margin business and post I think price corrections we will again see the business go back to the normalized profit levels, right?

Satish Patel:

Yes, the small decline in profit, and if you see for the quarter the declining profit is not that significant, so we had 0.5% to 0.8% impact which is not so significant. And there I think because of the actions that I mentioned going forward this will improve to a certain extent.

- Udit Bokaria:** Yes, because I am thinking like the sales have increased like 12% on an average in first half, net sales excluding other income, but your profits is like for the first half I constant. So, just wondering is it because exports is also a higher margin business and in the second half we will see a revival?
- Satish Patel:** Export does, export contributes slightly higher in terms of profitability, that is right. So, the mix going forward would help us in terms of improvement in profit and the recovery of the price increase on the cost side, that would certainly help us.
- Dharmesh Arora:** And don't forget that export business is mostly a distribution business whereas the local sales also includes to a great extent OE business. And when the OE customers demand certain capacities to be given to them because they have a line running, they have a machine being manufactured that needs to be serviced, you cannot flex an OE demand when you are in a situation that you need to manage your capacities in the best possible way. And you would also realize that typically distribution businesses may be more profitable, I am just making a general statement, than the OE business. So, here we have a situation that in a very rapidly growing market you are trying to keep the OEs fed with the adequate products and for that you may have to make a decision to flex your distribution business, and in this case for example exports, which may have slightly better profitability but that is something of course long-term again is the right decision to be made because you want to continue to maintain your business relationships and your long-term commitments and the contractual commitments with the OE customers.
- Moderator:** Thank you. Our next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.
- Priya Ranjan:** One question is on, typically what is your volume growth and the pricing impact, because the growth in many segments what I am seeing is not reflective of the commodity or the steel price increase.
- Dharmesh Arora:** Can you maybe elaborate your question just to make sure that I get it right?
- Priya Ranjan:** So, typically steel prices have gone up significantly if you look at year-on-year. And typically, just take the example of LuK business, where the growth has been more of organic around 8% to 9%. So, what kind of volume growth we have in different kinds of businesses and the pricing because of the commodity inflation?
- Dharmesh Arora:** The steel price increase that you are referencing is to a great extent happened in the specialty steel, of course the flat products also have seen some increases, but larger chunk of that impact has been on to the specialty steel which is bars and the cubes which are typically required as an input material to producing bearings or the rings for the bearings. So, the impact from that specialty steel has been of a larger extent on the Schaeffler India Limited. Talking about other companies, of course INA and LuK also have seen similar impact depending on their consumption of the kind of steel and so on. So, that is how it is. And like I explained that these cost increases on the steel started happening in the last quarter of 2017 already. We had one round of increase at that point

of time and then into the second quarter or late first quarter or second quarter we had another round of increases coming in from the steel manufacturers. We take all the mitigation activities, look at alternate sources, of course negotiating the best possible way and at the end of the day try and see as to how much of those increases we ultimately can have the ability to pass on to the customers and realize that as part of price increases.

Priya Ranjan: Second question, just continuing on that, what will be the typical volume growth and the pricing growth if we look at the combined entity, if we can segregate roughly?

Dharmesh Arora: It is a tough thing to predict as to how things will evolve, there are certain actions which we have taken for example, we sell bearings on a catalogue basis, the pricing list which we have a published pricing list and we made an intervention on that that the prices across the board at that level have gone up by 4% in the middle of quarter 2 2018. And as the new orders start flowing in we will start realizing those increases on the products that we sell through catalogue basis. Similarly, the other customers, particularly OE or the MRO customers where we have either contractual relationship or a tender based business, as the next tenders approach we are able to now quote at a higher price levels realizing or recognizing the steel input prices which have gone up. And similarly get into negotiations with our customers where we have long-term contractual arrangements to try and see as to how soon can we recover some of those increases from the customers.

Priya Ranjan: One additional question on the LuK localization, I mean that is the only business where the localization level was still at a lower level. So, how soon or how fast we can move on that part?

Dharmesh Arora: Just to clarify, I think you probably mean INA business?

Priya Ranjan: Correct, INA.

Dharmesh Arora: Alright, so LuK business is fairly local, all the clutch business here is almost 100% local and the clutch release system is also largely becoming local. INA business, yes, we are continuing to build localization capacities there both in our own plants but also developing appropriate supply base so that the purchase components and the raw materials are localized. We are on that path and as we speak in automotive roughly 80% or so products we produce locally, but then within those products we may have components or raw materials that could have been imported and that is what we really need to target to make sure that we are continuing to not just look at the finished good localization but also the depth of localization. The investment we are making will help that we would not be importing anymore some of the finished components that we had to import, we will be assembling them locally and maximizing the use of the components from local sources in those assemblies will help us drive localization to a higher level.

Priya Ranjan: And last question is on the industrial side, so what is the wind outlook, last year the wind was under tremendous pressure so how it is moving? And the second part is on the railway, the

government has probably last year decided to do away with the (Inaudible) 42.38 coaches so do we see some kind of opportunity or loss of business from that?

Dharmesh Arora:

Well, wind maybe you can help me getting some clarity, talking to other companies and our customers and so on. But anyways, jokes aside, yes I would not be able to comment very confidently to say that we know how the wind will evolve, I think it is still work in process. I think based on our conversations with the customers to whom we supply our bearings and our solutions they still remain very confident of the long-term strength of that business, the commitment that the government has and how this will come back into a strong business. We continue to invest in creating new capacities in the country to be able to produce those large sized wind bearings in the country as Savli. And with that many of the customers now we have a stronger business from local sources, ZF particularly for example to whom we supply the bearings for their transmissions which go into the wind-mills, that business continues to grow fairly well for us this year. Whereas some other operators I think the growth has not been as well. But once again, long-term we think that business is strong, it will come back, and we continue to build our capabilities there.

Priya Ranjan:

And lastly on the railway (Inaudible) 44:08.9 coaches, the impact because the government has decided that they do not want to procure (Inaudible) 44:17.6 coaches for passenger side.

Dharmesh Arora:

The transition to the so called LHB coaches is happening, the government has announced that they would like to pull that transition forward and have the transition completed quicker. So, I think we have also pulled our clients to transition our own products and capabilities from the cylindrical roller bearings which were more turbulent into the previous regime or the technology regime of the coaches to so called paper roller bearings or the TAROL bearings which are more commonly required in LHB coaches. And also the freight wagons that would be required to run the freight corridors or the dedicated freight corridors which are going to get completed in the years to come. So, as I reported into the previous question that we have established TAROL manufacturing plant line at our Maneja plant, we have secured several approvals which make us possible to participate in these tender businesses with the Indian railways. And we have been supplying those TAROL bearings to Indian railways and some of those volumes have also picked up in this year. So, when you look at the railway business in the first half of this year for example has grown 30% compared to the first half of 2017 which has largely been possible because we have been able to build up our ability to start supplying quantities of TAROL bearing. At the same time, I think I reported in probably the previous call that we have also established a refurbishment facility for the TAROL bearings, so some of the metro trains to whom we had supplied these TAROL bearings in the past they are now due for refurbishment of the bearings, particularly here I am talking about DMRC, Delhi Metro. So, those bearings are now an ongoing business for us, those bearings are taken out from the coaches in Delhi and are sent over to our plant in Maneja where we open up, we redo those bearings and then supply them back to the DMRC. And that way we are also able to participate not just in OE business but also the evolving, reconditioning or refurbishment business.

Moderator:

Thank you. Our next question is from the line of Kashyap Zaveri from Emkay Global. Please go ahead.

Kashyap Zaveri: Just to take the previous participant's question further. On the wind energy side, I just needed a little more color. So, we will start, or the business will grow once the Savli plant comes on-stream or as of date we are already seeing traction over there and we are already supplying at least better versus what we saw last year?

Dharmesh Arora: Which product were you talking about?

Kashyap Zaveri: Wind.

Dharmesh Arora: Yes, the wind we actually started the capacity expansion for wind late last year. And we have largely completed the capacity expansion for wind at Savli already. So, in the past we were able to produce bearings up to a diameter of 1 meter at Savli. With this expansion we have now the capability to produce bearings up to 1.5 meter in diameter and at the same time we have doubled the capacity from this large sized bearing segment that we have at Savli. So, capacity wise we have the capacity installed, we are working on the rest of the value chain. And as the wind market starts to grow we are expecting, once again based on inputs from the customer, we are being told that by end of this year we should start seeing good traction from the wind sector. And we are certainly in place, the capacities are available to be able to support that business as it grows.

Kashyap Zaveri: Because what we understand from some of the wind energy players is that at least the bids which were done in the early part of the last financial year the EPC work has already started. So, probably I thought that we would have already started doing significant, if not in the high diameter at least low diameter we would have started doing significant work. I think like I mentioned a particular case of ZF that business has really been growing for us and if I look at our first half performance of wind it is actually almost flat compared to the first half of 2017. But then I must point out that first half of 2017 was a fairly growth in wind, we started experiencing problems from the end of the second quarter or towards the third quarter and the fourth quarter was really bad. So, actually I am comparing the first half of 2018 to half of 2017 which was really good on wind. So, we are already at that level in this year. And the next half of 2017 was bad for the wind, but if we are able to maintain the level at which we are operating in this year we would certainly see good growth by the time the year ends.

Moderator: Thank you Our next question is from the line of Shaan from Edelweiss. Please go ahead.

Shraddha: Just wanted to understand the trend in industrial segment, because if you actually see QoQ we have grown at 14% in this quarter and so was the trend in Q1 as well. And also as you said we have seen some slowdown in the IIP. So, as you guys also classify two-wheeler and tractors under the industrial, so if you can just bifurcate how are we seeing the pickup and the sustainability of industrials going forward?

Dharmesh Arora: I know there is sort of lot of interest in terms of our quarter 2 performance compared to the quarter one performance of 2018. But if you really look at the general industry performance, the quarter 2 of a calendar year compared to quarter one of a calendar year typically is not necessarily the

strongest of the quarter. Because let's face it, the quarter one of the calendar year is the quarter four of a financial year. And most of the companies in India still work on a financial year basis. So, the quarter four of a financial year which is quarter one for us is a pretty robust and a strong quarter, and when you get into quarter 2 of our calendar year or quarter one of the financial year for most of the companies it is kind of not necessarily the strongest of the year. So, hopefully I have not confused you by quoting so many quarters here, but I was just trying to make a point that quarter 2 typically has not been the strongest of the quarter for us. And that is validated by our performance in Q2 of 2017 compared to Q1 of 2017, which was relatively flat. Having said that, we think the market will pickup. Having said that, we think that some of the price actions we are taking and so on, we are expecting that the next two quarters growth quarter-over-quarter will also be better. Of course, if you compare this quarter to the same quarter of 2017 it is already good, we are able to maintain the growth that we had set for ourselves in quarter one and that is continuing, and we think that we should be able to do the same for the coming quarters.

Shraddha: And second question is on this new axel norms which have come in. How do we see this impacting our business, the new load per axel norms that have come in the industry?

Dharmesh Arora: Probably too early to sort of say as to how this may affect us. I think for us it will be important to see as to how the production plans at our customers', our OEM customers are changing and how they are sensing the change in the marketplace. Generally, from what we can gather so far, it seems this axel loading will not impact immediately to the extent that of course the OEMs have to upgrade their equipment with their axels or their tires or be it their vehicles, get them certified and approved for the new axel load ratings. And that could take some months. But what might happen during this time is that maybe the vehicle operator may postpone their decision to buy new equipment in the anticipation that they would want to buy equipment which was rated at a higher axel loads. So, that is sort of the concern or apprehension. But I think we will have to wait and watch if that is reflected into the production numbers at the OE customers.

Shraddha: Sir, but also how does this impact the replacement demand, does it get any better with the existing vehicles because of this for us?

Dharmesh Arora: I do not see necessarily a direct correlation in terms of the aftermarket demand there. I think it is a generally well known secrete that there will be trucks are being overloaded in the country. So, as far as the real situation on the ground is concerned, probably things would not change. And if that is indeed true then I believe that it may not necessarily impact the replacement cycle.

Moderator: Thank you. Our next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Just wanted to get some clarification on the price hikes that you had mentioned. You had mentioned 4% price hike primarily on the catalogue category. Some of that we have already realized this quarter or most of it will be coming only from the third quarter?

Dharmesh Arora: So, the catalogue prices were changed two months ago. What happens during this course is of course there might have been some pre-buying from some of our customers anticipating this and so on. So, the actual realization of those increased prices happen as the new orders start flowing in and the new invoices are happening. So, I would say that any new orders which are now of course being executed are being executed at new price levels. The full realization of the catalog price increases will happen certainly in the third quarter, the second quarter would have seen only at the end of the quarter but the third quarter you will see the whole quarter impact from those catalogue price increases. And at the same time the other increases that we are negotiating with the OE customers or the MRO customers, that impact may happen somewhere between the third and the full realization probably by the fourth quarter. So, that is how I would probably say that we are targeting that, we are able to conclude most of the price realizations by the fourth quarter. The catalogue prices have already been done, the customer or the contractual negotiation-based realization would happen somewhere between the third quarter and fourth quarter.

Mukesh Saraf: And secondly if I look at the P&L, in the purchase of traded goods the amount has gone up significantly this quarter at Rs. 245-odd crores and it has never been this high in any of your quarters even if I go back like five years. I simultaneously also see an increase in inventory of about Rs. 100 crores, but any specific reason why the purchase of traded goods have gone up so much, is it to do with some visibility on demand like in this third quarter or is there something else to do?

Satish Patel: So, as far as development that you see substantial increases in purchases of traded products, if you see the cost of manufacturing there is a reduction, there is a significant increase in the inventory chain. There are two reasons for this, the first is, as Mr. Arora answered one of the question about reclassification or the retreatment of the products that we used to import and do the finishing activities which we earlier as per the excise tax regime classified as manufactured products, post GST in this year those products are part of the trading activity. Because of this transfer of the products from manufacturing to trading you find increase in the purchases of trading with corresponding reduction in manufacturing. So, this is one reason because of the region. The second reason, in addition to that, inventory increase that you see in inventory chain, yes there is inventory increase and this is short-term, we have actually certain programs to make sure the availability of the products in industrial customer base and also to improve upon the cost of air freighting the products which were required for urgent orders. So, those have been from air, we want to improve upon the cost of air freight to the normal freight. So, there has been some more ordering of the products thereby increase in the inventory.

Dharmesh Arora: And last part of this increase is actually GIT increase as we speak, or the goods and transit increase. So, many of those goods have not yet reached our warehouses but some of that is active intervention from our side in view of the nice or the robust market growth here. We want to make sure that the product availability is not coming in the way of participating in the market. And when you are in a situation like this availability in the service level becomes a key factor for clinching new orders or new deals. So, we want to be aggressive in the market place and be prepared, so some of that is a planned intervention to improve availability of the product and this might sort of

stay at this level for some time until we feel like we have reached the right level of inventories which can service the customers based on how the market is growing.

Mukesh Saraf: And this is again only in the non-auto segment, it is not to do with some shortage of capacities that you have in auto and hence you are looking to temporarily import, nothing like that is there?

Dharmesh Arora: Right, it is mostly industrial which in industrial again with the large portfolio there are needs, particularly from MRO market who may not be able to always predict as to how many pieces they need in which month or which year. OE customers typically do that quite well but the MRO customer many times the needs are immediate and usually having the product available off the shelf is the enabler in catching that deal.

Moderator: Thank you. Our next question is from the line of Viral Shah from Enam Holdings. Please go ahead.

Viral Shah: Just one question from year side, the sales mix that you have given on a standalone basis, could you please share the same at a pro-forma level also?

Dharmesh Arora: I think we do have a slide which showed the sales on the pro-forma level, right?

Satish Patel: There is a slide in the investor presentation just after this standalone performance, there is next slide which contains the pro-forma results of individual three companies and the consolidated, Slide ##10.

Viral Shah: I just wanted the sales mix in terms of manufacturing exports and traded products?"

Dharmesh Arora: Well, let us say that kind of mix has been something which has been more relevant for our industrial business or the Schaeffler India Limited business. I think automotive by nature of the business is typically supplied from local production, since it is a JIT sort of business many of our customers demand that the product be supplied on a very-very short lead time, not in weeks, not in days but sometimes in hours. So, we have multiple deliveries to many of our customers on a daily basis and those products are typically produced locally. So, that mix is something whether it is traded or locally produced is something we do not do as well, or we do not track it as well on the automotive side because it is not a very relevant way to look at it. We have that largely produced locally, but maybe once we are completely of course merged that business will come into it and we will be able to provide. But I do not have that mix readily available, primarily because that is not something which is of great interest or a thing that we should really look at from the automotive perspective.

Moderator: Thank you very much. Due to time constraints that was the last question. I now hand the conference over to the management for closing comments.

Vijay Chaudhury: Thank you, Ali. Thank you, Ladies & gentlemen, for joining us for this update call. Should you have any queries, feel free to write back to me at vijay.chaudhury@schaeffler.com. Thank you and have a good evening.

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