"Schaeffler India Limited Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Schaeffler India Limited Results Conference call for quarter 4 and full year results for the period ended December 31st 2018. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury from Schaeffler India. Thank you and over to you, Mr. Chaudhury.

Vijay Chaudhury: Thank you Aman. Thank you, ladies and gentlemen. Welcome to the Q4 and full year results call for Schaeffler India. Today, we have with us Mr. Dharmesh Arora, CEO, 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 which was uploaded on the BSE website today morning again on your results and the merger update and over to you, Mr. Arora.

Dharmesh Arora: Thank you Vijay. Good morning ladies and gentlemen. This is Dharmesh Arora, along with me is Satish Patel here in the room, welcoming you to our quarter 4 and 12 month update for 2018 and before I begin, let me just make a few comments that 2018 certainly in many ways, our Schaeffler journey in India was an exceptional year. It is the year when the three regularities of the Schaeffler Group in India, FAG, LuK and INA were all brought together under one umbrella as we now know it as Schaeffler India Limited, so this was absolutely a landmark even something which prepare the organization for the future and the transformation which is of course sweeping across the industry in the preface to organization in a better manner to be able to respond to the needs of our customers and stakeholders at large. In many other ways, I think it was also an exceptional year for a very great growth we had for most part of the year. To a great extent, I think we were certainly helped by the positive development in the economy, but certainly I think we have participated in that growth well and realized great performance both on industrial and automotive arena.

With those opening remarks, let me get into the presentation. The presentation which Vijay referenced is available on the BSE website and hopefully you either had a chance to go through that or at least have access to that so you can follow me nevertheless, at the end of my presentation will have sufficient time to address any questions that you may have. So usually I start with giving sort of short update on the economy as to how things are developing, again not something that I have to tell you. There is something we all read this in newspaper, so we are well familiar, but if we were to go down to the slide #3, economic development for most part of the year has remained fairly strong and I think most economist are predicting that for financial year 2018, India should close the GDP growth at about 7.4% which is fairly respectable high level of growth, probably one of the fastest in mature or major markets around the globe, so lot of eyes onto India including the attention that Schaeffler India is receiving from its parent Schaeffler AG in terms of the opportunities which this market provides.

Inflation remains at manageable level here, so that is a good news, but the core industry growth has also slowed down. IIP did see good spurt in the early part of the quarter 4 2018. In some ways, it was probably getting ready or stocking for the festive season which was coming up and subsequently you can see that IIP did drop in November. December numbers aren't yet available. Overall, I think we all know that the quarter 4 was not that great from the automotive industry perspective. The defective demands didn't materialize and I think we have seen softness in passenger vehicles, we have seen softness in two-wheelers, we have seen softness in commercial vehicle arena, so first 3 quarters of good growth, last quarter not that great for automotive particularly, so one thing is certain that the volatility is something that we also are experiencing and something we will have to watch out for in 2019 as well as India braces up for general elections, the global issues from trade wars to protection as much to local market issues, so the sentiments will come into play and then, of course, we have our own BS6 emission norms coming up in April 2020 to be implemented and that may again cause some volatility towards probably the latter half of 2019 and early part of 2020.

Core industry, I think I am on the slide 4 now, which digs down a little bit into the core industry. I think overall not bad, cement grew 15%, steel grew 4% for the year, coal production 7% up and electricity generation also 6% up, so more or less I think most of those indicators look fairly robust. I think the infrastructure push by the government and the activities on the ground are keeping many of these sectors going quite well.

Now coming to the slide 5, which is the automotive or the mobility sector and here is what you see that in the last quarter, particularly in November and December, the slowdown in the passenger vehicle industry, which not just slowed down from the levels it was seeing in the immediate months prior to that but also compared to the 2017 levels, there was a negative growth in both November and December months. Similarly, the two-wheeler commercial vehicles and to some extent I think the agricultural tractors also saw slowdown or reduction in the volumes that they were seeing.

So now, let me get to our own performance in the midst of the development around us, so now I am on the slide #7, so our revenue for the quarter four 2018 was Rs. 11,863 million, which is flat compared to the quarter before that and 16.1% growth compared to the same quarter in 2017. For the whole year, the growth is 16% compared to the year 2017. So how to view this, I think clearly the automotive industry's weakness in the last quarter 2018 showed up in our numbers as well. Many of our OE customers responded to the softness in the market by cutting down production, in their plans in the last quarter and particularly prominently in the last weeks of December and we responded by similarly reducing the output at our plans and some of our plans we observed no production days in order to ensure that we are in sync with the customer demands and not getting into situation of producing something and putting into inventory which our customers would not be needing. So clearly the production output had to be adjusted to respond to the market demands and that also meant that the cost absorption on the overall basis would not be in the area that you would like to see since the cost absorption on the lower volume would affect the relative profitability as well.

The good news is that despite the automotive slowdown that we saw, the industrial segment has remained and maintained very positive and robust growth, which also reconfirms our strategy of combining the 3 entities and bringing them together to have more robust and sustainable business model wherein we have both automotive and industrial fairly well represented in our overall mix, so the industrial maintained pretty strong demand and growth and we had the plans in India of course, running to support the industrial demand but also some of the demand had to be met by having higher levels of imports or traded goods in order the serve the customer requirements.

When you look at the bottom right pie there, I also wanted to point out that in the last quarter of 2018, when we had some softness in automotive, we had a pretty strong demand from our group companies and we were able to utilize some of the capacity available to serve them and exports did pick up in the last quarter of 2018 and our exports were up, 36% in that quarter compared to the same quarter of 2017 and that is something again I wanted to highlight that being part of the large group with businesses around the globe, I think provides great opportunity for us that when you have some softness in the local market, you are able to utilize some of that capacity and using that capacity to export and fill the demand that the overseas customers may have. So that was on the overall revenue side.

Now if I go to the profitability, clearly our earning quality was impacted in quarter 4 to a good extent by the adverse sales mix as well, so when the automotive is not doing well and within the automotive, some of the segments like engine components, for example, had a larger impact because of the general trend that the diesel powertrains were not doing well as well as they were in the past, so that also had a larger sort of pronounced impact on our sales mix. So overall, I think less production, cost absorption issue and then finally the adverse sales mix impacted our profitability for the year.

Now, some other stuff on the slide when you look at our expenses, let me point out some of the positive things we did. Our energy expenses for the quarter were moving in the right direction. I think you know that in the last quarter of 2018, we inaugurated a new plant building in Pune and that has solar power plant installed on the whole roof of the plant and that help reducing of course our energy cost and consumption in that plant, but importantly also contributing to the sustainability and carbon footprint reduction, so that is something we are happy about and we would like to see that we continue to expand on opportunities like these in future. Similarly our exceptional freight had gone down towards the last quarter and I think through the year, we have done many different things to reduce the exceptional freight and improve our product availability, which also helps improves the sales particularly in industrial segments, though on the inventory side, you would have seen some increase, but in many ways that was an intentional intervention to improve product availability and reduce premium freight or exceptional freight, so that something you would have seen as far as the inventory is concerned.

Last, I think we have also been able to maintain tight control over our general expenses, so when it comes to travelling or other such expenses, I think through better cost management, we have been able to reduce year over year expenses in that area. On the negative side, I think we did have some things like the system integration expenses or logistics integration expenses related to the merger of the 3 entities, merger was completed in October 2018 and many of these expenses related to the merger were reflected in our quarter 4 results. Similarly, we have increased out outlay for branding and promotional expenses, so some of that both related to the merger, but at the same time communicating our future strategy, communicating our readiness to address the transformation around eMobility and so on, so I think we have been a little bit more active in the marketplace and some of those expenses have also shown up in the numbers that we see as far as earning quality is concerned. Overall, I would say the year has been good. When you see the 12-month performance, 14.8%, it is very much at the similar levels that we had in the past year, despite the significant challenges we faced in quarter 4 of 2018.

Now, the rest of the slides, slide 9 is just the numbers that I have spoken through them all, leave them for you to absorb them and finally just to summarize them all, I am on the slide #11 now. Economic growth remained strong but volatility may increase and that requires us to remain in very close connect with of course the economic development, but more importantly customers and ensure that we are doing everything possible in real time basis to be prepared for that. Despite the volatility, the revenue growth of 16% in 2018 compared to 17, both automotive and industrial have grown which is good news. Earning quality was impacted in quarter 4 due to adverse sales mix and production cuts. Good thing is that we have seen some nice numbers being reported on the retail side by our automotive customers, which hopefully will start reflecting into the whole sale and manufacturing output side at our customer's end, so we are hopeful that as we go into quarter 1 and quarter 2, the numbers will start and keep improving and finally, yes, the post merger integration activities are going well and we are continuing to create and strengthen the organizational capabilities in preparation for the future. So with that I have come to what I wanted to present as part of the presentation is concerned, but now I hand it over back to you Vijay to open up the Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sandeep from JM Financial. Please go ahead.

Sandeep: Sir, my first question is pertaining to this high inventory that we are seeing which you highlighted in your comments that we are basically stocking more to cater to the industrial customers as well as at the same time reducing our freight cost, so should we read this more into as a one-time adjustment and this is likely to continue going forward or is it more transitory because of sudden dip in demand, which has led to a jump in the inventory levels.

Dharmesh Arora: While the inventory increase that you are seeing, I would not call it as a new normal, we have certainly responded to the growth, so if you look at 2018, I think the industrial growth has been very robust and as we begun the year in quarter 1 and quarter 2, we did realize that the opportunities which are available in the marketplace can be realized if we had better product availability. The business model is such that at times, the converting an inquiry into a real order depends to a large extend whether you have the right kind of part available with you. So it was an intentional call that we were continuing to see robust demand in industrial and we saw it fit that we should increase our inventory level in order to better able to convert the anticipated demand into real sales and that something you also see into our results that the industrial growth has been very good in 2018. Having said that it is not something that we would like to maintain at the level where we are. I think we continue to learn, we continue to get better in terms of better able to predict the customer demands, so I am pretty confident that in 2019, we would be able to reduce it gradually as the year progresses and arrive at an appropriate level which we think is good level to be kept.

Sandeep: Sir, my second question was regarding this sharp jump in exports. You mentioned that this was the parent having seen a sudden spurt in demand and decided to utilize the Indian factory to cater to that particular demand and going forward what we have also been reading and listening to various global industrial companies guiding for slower growth in 2019, so how would you view this exports trajectory going into 2019?

Dharmesh Arora: Sandeep, I think for us, we are here in India importantly to make sure that we are able to serve the customers in India and we continue to build capabilities, capabilities in line with the anticipated growth in India. Having said that being part of a large organization with its presence around the globe, we always look at opportunities of importing or exporting products and as the demand and supply situations or the capacity situations evolve, we always look for realizing the best for the growth in line with the local unit's abilities. So for most part of the 2018, the demand from the local customers had been so strong that we never had enough capacity available to be able to serve other customers outside of India, but as we saw some opportunity towards the end of the year, we were able to ramp up the exports and serve them, but I think we have been very consistent in our interactions in the past that our focus and our priority remains to be in India, to serve our customers in India, but the same time being a part of the large organization, we will always have export opportunities which today I think it stands at about 8 to 10% and that is something we expect that we should be able to maintain long-term.

Sandeep: Sir, regarding the gross margins, we have seen very sharp increase and you mentioned that to cater to the higher industrial demand, we had to increase our imports, so what is the outlook going forward, given that automotive sales continue to remain weak while industrial growth is sustaining, should we look at this kind of gross margins to sustain or there were some one-time high value imports which may not recur in the year 2019?

Dharmesh Arora: Sandeep, are you referencing gross margins in some particular sector or can you clarify your version?

Sandeep: Just cost of goods sold as a percentage of your sales is about 64.8%, which is a sharp jump of more than 500 basis points on a year-on-year basis.

Dharmesh Arora: So you are talking about the COGS going up in the year and I think that is not a surprise, I think we have all seen how the steel prices have gone up in 2018. We also had the impact of the import duties being raised in the last budget in February of 2018, so I think those are couple of reasons as to why the input costs have certainly gone up compared to the year before. We have many projects and internal actions to continue to improve our cost of operations, our operational efficiency to negate these impacts, but I think we all know the increases were large enough or significant enough that they do reflect into our cost of goods going up compared to 2017. We have taken actions on realizing or passing on those costs to the extent it is possible to the customers both in industrial and automotive and that reflection of course shows up into a topline of the sales in terms of the price increases that we have been able to realize.

Going forward, I think we have seen some softness of late in the steel prices, particularly in the last 2 to 3 months and they know once that negotiations fructify that once that material flows into the value chain, we may see some reduction hopefully in our COGS in the first quarter of 2019. Long term, I am not sure whether I can say that confidently as to how steel prices will behave for the whole year. I think the local demand and the supply and importantly the actions that the government takes in terms of import duty constraints, etc., may give better idea in terms of how the steel prices may develop and evolve in the year.

Sandeep: Sir, that is one part of it, the import duties and cost increases on the steel side, but what on the end-user segment side. Is the automotive segment much more profitable and given that you are seeing a slower growth from the mix perspective also do you expect it to remain similar in 2019?

Dharmesh Arora: While I mean one thing Sandeep I cannot say for sure, how the year will continue to evolve, I think the volatility is something I think we will have to be prepared for, but I think we continued to look at and stay close with our customers in terms of all their demands are evolving, but I can only say that 2019 may see higher level of volatility that we have seen in the past.

Sandeep: Sir, I just need those one-time expenses that we have incurred in 4th quarter pertaining to the merger and branding exercise that we conducted to look at the normalized cost base going forward?

Dharmesh Arora: Yes, these were some expenses related to the merger activities and things which make sense to do, so I don't have offhand but it would be around Rs. 70 million would be the expenses which were booked under this sense.

Satish Patel: Very right. Those are in the range of around 60 to 80 million.

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

Shyamsundar Sriram: Sir, my question is you spoke about the diesel parts coming down, if you can throw some light on what parts we supplying for the diesel engine and how much is diesel as a proportion of our automotive mix?

Dharmesh Arora: Yes, Shyam, it is not as much of the question of how much we supply for diesel versus the petrol, but I think we all know diesel has generally the high content, right. If you were to buy a diesel car, diesel engine there is more content, which means there is more part for us, more value for us to be supplied into every diesel engine versus petrol engine. So when this makes changes, when there is less of diesel sold and more of petrol sold, even if you had the similar level of penetration percentage to each one of them, it shows up. So I think we are seeing some pronounced changes in the market behaviour and we continued to of course look at our planned production and ensure that we have a good mix on both diesels and petrol, but if there are less diesel sold by just the fact that there is more content available in diesel, it will show up on our sales level as well.

Shyamsundar Sriram: Sir, any particular parts or that you can share that we supply exclusively for diesel that increases the content?

Dharmesh Arora: Diesel typically have higher level of NVH, for example, so there are higher level of dampening equipment required, for example, dual-mass flywheels, stuff like that or even clutches which are more robust with the higher level of dampening systems, so I think those are something which diesels need. We also have very strong presence in the wall train area, so components like hydraulic lash adjuster or roller finger followers, they typically have been more prominent in diesel, but having said that increasingly, the same components are finding their way into gasoline engines as well. So as the gasoline engines get upgraded to be prepared for BS6 and so on, many of these solutions, the customers are also integrating into the petrol engine for future.

Shyamsundar Sriram: Sir, you spoke about a spurt in automotive exports this quarter, is that also a reason for these lower margin, are our automotive exports since we supply to the group companies, is that a fair assumption that the margins there will be lower than the domestic automotive supplies that we do?

Dharmesh Arora: Just to clarify Shyam that you know, we don't do much of exports on automotive components, most of our exports is related to actually industrial components, which are primarily bearings, which go into various segments from ball bearings to cylindrical roller bearings, spherical roller bearings and so on, so just to clarify the utmost of our exports are related to the bearings and for industrial usage. Now, export does not necessarily hurt our bottomline one way or the other. I think we got fairly good price levels there, fairly good margin level there and doing export for us was to make sure that we can utilize our production capacities we have and also meet the customer needs that the group had in other markets, so that is how we are able to flex our capacities and our objective and goal always remains that we use the capacities to the extent the local market requires it, but if we have some extra capacity available, we always look at opportunities elsewhere.

Shyamsundar Sriram: Sir, just one last question if I may please, within the industrial segment, which industries are we seeing strong growth?

Dharmesh Arora: I think all the sectors split into infrastructure, I think we have seen pretty strong growth last year, but generally speaking, I would say most of our sectors of industrial in 2018 have done fairly good growth levels, so for us in industrial, railways has done well, we have done well in off road, which is construction equipment as well as agricultural, we have done well in two-wheelers, we have done well in raw materials which is all steel, mining, related cement plants, for example, I think all of that included in raw materials and finally we have had pretty strong growth also into the aftermarket or the distribution business, which is where the MRO demand from many of these sectors comes in, so I think I would generally say that across the board, I think most of the industrial sectors have done well, but some of the ones I mentioned have seen really good strong growth.

Shyamsundar Sriram: That helps sir and with the industrial railways will be 2 to 3% sir, how much would be railways for us sir?

Dharmesh Arora: Railways for us would be about 6 to 7% of our business.

Shyamsundar Sriram: So at the consolidated revenues?

Dharmesh Arora: Yes, that is right.

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

Bharat Subramaniam: Just couple of questions, one is, in terms of aftermarket through this comment, how has been the performance and second in terms of the steel prices, is there any hikes that we have taken post some of the inflations we have seen on the raw material side?

Dharmesh Arora: Yes Bharat, I think on the aftermarket side, both automotive and industrials have seen really good growth in 2018, so I think we call it industrial distribution and automotive aftermarket and both of them have seen an excess of 19 to 22, 23% growth which was nice and typically, these are very attractive businesses from both feeding the distribution channel and reaching out to our customers, but also from the margin perspective. The other question I think you talked about the steel prices or the increases in steel prices, I think as we have been sharing with you at each of the quarterly calls that we do work closely with our customers on renegotiating contracts and try and see as to how much of these steel prices or increases in steel prices can be passed on or recovered from our customers. On the industrial distribution side, we had taken an action of across the board price increase in the second quarter of 2018 and with automotive customers, case by case basis we have gone in and renegotiated the contracts. Most of the actions of realizing the increases to the extent it was feasible has now been concluded and we have booked those increases into our commercials, into our financials and going forward, we continue to monitor the steel prices and if they do soften like it looks like at least for the first quarter, it might be, then we might be able to renegotiate the contracts with our steel suppliers and have that reflected in the quarters to come.

Bharat Subramaniam: And just one, the aftermarket today, what could that base as a part of overall sales mix, the diesel distribution and automotive aftermarket together?

Dharmesh Arora: In automotive aftermarket would be about 10% of our business on the consolidated basis and similarly industrial distribution would be about 12 to 13%. Would that be appropriate?

Satish Patel: Industrial distribution is 14%.

Dharmesh Arora: So industrial distribution is overall 14% of overall business, automotive aftermarket is close to 10%, so both of them together, 24% or so or quarter of our overall business.

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

Mukesh Saraf: First question is with regards to a news article reading on the parent company investing about EUR 120 million on the eMobility business in India, so could you give some sense on would this be like a second unit that the parent is setting up or would it be within Schaeffler India and also some of the timelines on there and what are the plans there?

Dharmesh Arora: I think we all know how eMobility is driving sort of the confirmation in the automotive industry and the good part is that Schaeffler as a group has been active and working on eMobility for several years. Globally, we have development centres in Europe, in North America and in China which is where most of the action so far has been with respect to the customer interest and customer projects on eMobility. As India gives up to, move towards electrification, hybridization, we clearly see big opportunity for us to bring many of those solutions into India and to ensure that we are able to bring solutions which make sense for India, we would like to develop capabilities and capacities on the ground here in India, so as we speak, we have developing that capability which will be centred at our central R&D centre in Pune. We have a couple of projects ongoing with our customers towards reducing the CO2 reduction through various level of electrification. It is so far progressing in the area of two-wheelers and three-wheelers, but there is no reason that how this cannot be expanded into the four-wheelers as the demand from the customer increases. I think you are also familiar that there is a big interest from the group to look at India as a potential to develop mechatronics and software related developments for the electrification of vehicles and that is something we worked very closely with our colleagues on a global basis to explore that and we are hopeful that through the year, we will be able to announce something which brings substantial investments into the country of developing capabilities, not just for India but also to support our global colleagues.

Mukesh Saraf: So this investment would be done by Schaeffler India or would it be done by the parent separately sir, like it would be entity owned by the parent like assisted entity?

Dharmesh Arora: Both are some of the modalities, of course, we will work through, but the key is that our organization of India will be deeply involved with it. I think we have great experience working with that customers, we understand the ground situation, so we continued to work closely on that but the structure of that entity, how it will look like, how the investments will be made, I think once we are ready with some better description of that I think we will be happy to share with you. At this time, our focus remains on continuing to develop our own DSIR approved R&D centres that we have in Pune and in Hosur and develop the capabilities for the electrification in support of the local customer and at the same time, try and see the bigger picture which is where we could have our global colleagues.

Mukesh Saraf: And my second question is with regards to railways, you did mention last time that even we are getting into the freight side of it, so of the class K bearings with respect to the TRBs, there is a season tender that container corporation has opened up for about 36,000 class K bearings, so just wanted to check would we be participating that and if yes, would you be importing those bearings and supplying it or how does that work sir?

Dharmesh Arora: We have been active in most of the tenders which the Indian railways has been working on and we currently have a contract to supply some of those stardoll bearings as the development partner to Indian railways. The tender in question, I am sure we would be participating in that as well, so the development of stardoll bearing is progressing well and provided we are successful, we would be producing these bearings locally in India in our plants in Baroda and supplying them from local production location.

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

Shweta: Just wanted to understand post the merger, PV constitutes substantial portion of our mix, almost I understand 25 to 30%, so if you could just give the outlook how are we seeing across each of this segments and particularly automotives in this challenging environment?

Dharmesh Arora: Well, I wish I can be very certain about that but I think we all goody and we all will say that long term, the growth of mobility sector in India, passenger vehicles or privately owned vehicles is continuing to grow, yes, we have seen an aberration in the short-term basis but we continue to build and invest into creating new capabilities in the country in support of that, so long term I think we remain optimistic of the opportunities available here. Through the year, there might be some receptions here and there, but I think through quarter 1 and quarter 2 based on the forecast and demands, which our OEM customers have passed on to us, we see slow but steady ramp up of the demands running into towards the end of the quarter 1 and going into the quarter 2, so we expect that the demand from our OEM customers will continue to raise. At the same time, there have been discussions and we anticipate that towards the end of the year, we may look at some pretty strong demand in anticipation of may be some prebuying before the BS6 new emission loss kicking towards the first quarter of 2020, so if you were to ask me as to how the year will look like, it may not be a very stable year, we may see some ups and downs but we have to really look and stay close with our customers and look at our own flexibilities within our plants that we are able to respond and materialize all the opportunities which come our way.

Swetha: And just lastly wanted to understand in terms of the merger related synergy benefit that we had highlighted, how are we looking at it now over the next 2 to 3 years?

Dharmesh Arora: We continue to work through those items Swetha, so some of the things I mentioned from the last quarter we have of course, the legal part of the merger completed, we have now made some good progress on the integration of the logistics network, so as of last quarter of 2018, we inaugurated and started a new warehouse in Mumbai area, we call it MCDC which is the central distribution centre from Mumbai, so all our imports and traded products now, they arrive the port in Mumbai, they are brought in into this state of the art warehouse in Mumbai and from where we are distributing those products to our customers, so this is lot more efficient than in the past wherein these products were coming into Mumbai, probably being shifted to Baroda than may be being brought again back to the customers, many of them probably might be in Mumbai area at any case, so I think those are some of the things which have happened. We continue to look at our office consolidation, so in some of the areas we had multiple sales officers, we had the colleagues who were operating from multiple offices based on LuK, INA or FAG locations, so as we speak we will be consolidating our Chennai and Bangalore office in the next 2 months, so that is something on the sales side happening. As far as the topline opportunities are concerned, the transformation related to electrification, the new projects which are coming into the country, some of the new OEMs which are coming into the country from you have heard that Kia is setting up a new plant in India, so I think we are able to better leverage our presence with those new customers, new plant locations and able to offer the complete portfolio to them, so in my opinion as those contracts do materialize, as those contracts get subtle, we will be able to get better basket of products for Schaeffler. That is something that we will be able to report once they materialize but this is something which will happen over the course of some years.

Moderator: Thank you. The next question is from the line of Abhishekh from Sunidhi Securities. Please go ahead.

Abhishekh: Two questions from my side. One is that in past we have been looking for some BS6 projects, so if you can throw some light that what kind of engagement with OEMs we have already achieved in terms of orders or contracts or some visibility? Secondly, from the pricing side that in earlier quarter you said that you have increased prices and you were in the process of fully implementation of the prices, so have you implemented fully or in this quarter, have you got any reimbursement of the earlier cost rises from our client?

Dharmesh Arora: I think the BS6 related developments have largely been done a while ago and as we speak most of our customers and the process of industrializing those upgraded powertrain and I think many of the customers have the intend to start producing them towards the last quarter of 2019 already and then start ramping them up in preparation for the April 1, 2020 deadline. For us, we are present with some of these upgraded powertrains and as the volumes ramp up I think we will be able to get those volumes also showing up into our toplines, but we expect that more to happen towards the end of 2019 and then slowly ramping into 2020. Passing on the cost increases or the pricing realization is concerned, I think to the extent it was possible to be done. We have concluded those price negotiations. I think in my earlier response, I did mention that industrial action was taken of increasing our catalogue pricing and on the other contracts, case by case basis, we have concluded our negotiations. Overall, I think you have seen when it comes of COGS, our input cost have gone up to the extent of 2 to 2.5%, most of that or good part of that is related to steel increases as well as the duty increases that we had seen and we have concluded those negotiations and I think those are starting to reflect at least towards the end of 2018 already into our books.

Abhishekh: Sir, is it possible for us to quantify the opportunity we will have in the BS6 program?

Dharmesh Arora: While BS6, I know there is lot of number floating around in terms of how the cost of the vehicles will go up, people are saying that may be the petrol cost might be more expensive by Rs. 100,000, diesels could go up by 200 to Rs. 250,000, but look at that in two different ways, corresponding to or creating BS6 compliant powertrain, you need to address the inherent efficiency of the powertrain itself and then the other part is what you do as a after treatment, so lot of these costs are actually geared towards the after treatment part, which is where you need to put in things like may be larger catalytic converters, may be in diesel vehicles you need to have SCRs and technologies like those. Now that is an area we do not operate in, so we do not do anything in the after treatment. All our focus is on creating inherently more efficient powertrains which is improving compression efficiencies and so on and those are the projects which we have been working with our customers, so like I said, I think these projects will start ramping up from the quarter 4 of 2019 and may be closer to that timeframe, we might be able to share with you as to how those ramp ups are going and which kind of platforms you are talking about.

Moderator: Thank you. We have the follow up question from the line of Shyamsundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyamsundar Sriram: Sir, now at the end of CY18 with postintegration of the other units, sir if you can just give us broad sense of the revenue mix within the automotive segment, passenger vehicle, commercial vehicle, two-wheeler tract that will be very helpful sir?

Dharmesh Arora: I think our mix may not have changed much from what you had seen in the past. So I think we still remain roughly about 42% industrial and probably 58% automotive, so I think that mix still stays and within automotive, we have businesses on engine transmission, chassis and aftermarket. I think I did say already that about 10% of our overall business comes from automotive aftermarket and then within industrial, about 14% comes from industrial distribution. Now, if you want to further drill down, I think you probably may have to reference the slide that I have shown as part of the merger proposal or the scheme of merger I think which is where we had shown some details, but we have a quarter pretty strong presence in transmission area, so may be half of our automotive business would be from the transmission systems. That is where you have the clutches, dampling systems, various kind of bearings which go into the transmission applications of automotive, then probably third of the automotive business in engine systems which is where you have various levels of front accessory drive systems, facing systems, wall train components. Apart from the industrial distribution we have strong presence in two-wheelers and then railways about 6% of our business in railways followed by various other sectors, raw material, wind, power transmission, off road and industrial automation. So I am not sure, I gave you precise numbers because I don't think I have them readily available, but I would urge you if you can may be reference back to the one of the slides that we had as part of the merger scheme of amalgamation where we had shown the split between various sectors and they may not necessarily change significantly over the course of the last 12 months.

Satish Patel: And the segments which are part of mobility, which also includes two-wheelers, off road, railways and all the segments of automotive, this remains at about 83%, so we are 83% mobility and 17% nonmobility.

Shyamsundar Sriram: Sir, in the wind segment, I think of the overall consol that will be around 3 to 4% sir, how are you seeing this stabilization there. Initially, there was a feed-in tariffs, then it went to auction tariffs, now we are hearing this when demand slightly coming back sequentially, how are you seeing the segment there?

Dharmesh Arora: We have seen some growth in 2018, so I think our business would have grown at least in double digit in 2018 on the wind segment, so that is a good news that after pretty low numbers that we saw in 17, there has been some uptake in wind, but at the same time, I think we remained cautiously optimistic here, we have not seen whole lot of action when it comes to new auctions coming on the ground, clearly I think the last auction had established very low prices and that is something I think the operators are still trying to figure out as to how do they make their businesses sustainable in this low price regime, so for us, our customers are OE customers which make wind mills as well as MRO customers or the operators who are running an existing wind parks, so we are working with them all and at this point of time, we see slow steady development in that area but I think better clarity probably will emerge over the course of next 12 to 24 months.

Shyamsundar Sriram: I am saying wind will be 3 to 4% of our overall revenues?

Dharmesh Arora: It is about 4% of our overall revenue.

Moderator: Thank you. The next question is from the line of Saurabh from Stewart&Mackertich. Please go ahead.

Saurabh: Sir, if you can just tell us the cumulative price increase in the last calendar year?

Satish Patel: We do not have the ready figure of the cumulative price increase as yet because we have different timings and different price increases which are more towards recovery of the customs duty increase and the steel price, but what I can comment in terms of recovery is that we have about 80% of the steel price and the customs duty impact recovered through the price increases, but the timing and the realization.

Dharmesh Arora: Might be different depending on the defective date of realization, but if you were to look at the 12-month impact, then I think that would be a fair estimate that 80% of the increases that we have seen, we are targeting to realize from the customers.

Saurabh: And on this BS transmission, will the cost per bearing also go up in a BS6 vehicle?

Dharmesh Arora: Well, that depends on the technological changes, so as much as we always say bearing is a bearing, but clearing bearing start continuing to evolve, so what we produce, for example in Savli so-called Gen-3 bearings they continue to provide better friction reduction, so there are new generation of bearings continuing to be developed which have better performance and certainly as there is a need to improve the frictional performance in engines, but more importantly in transmission space, I think we see the opportunity of providing technologically advanced bearing and you are right as the customers adopt those higher level of performances. We will be able to provide technologically better bearings, which may have more content in them in terms of the kind of steel used, the kind of performance accuracies used and sometimes, also the kind of coatings or the surface treatments that the bearings receive, which improve their performance in those applications.

Saurabh: And on this eMobility, if you can just guide us how will it have an impact on the per vehicle content of bearing and also on the pricing part?

Dharmesh Arora: Probably it is too early for me to comment on that, I think we are still looking to see as to how the industry will evolve in India. I think you all know that we are awaiting the eMobility or the mobility policy rather from the government which should now come through hopefully after the elections but I think once that is out there, then I think once you understand the road map that the government would target for the local industry, both from the electrification, hybridization, I think then we might be able to better predict as to how the industry will evolve, how our customer will develop their portfolio of various platforms and then depending on that I might be able to better provide a better judgment.

Moderator: Thank you. Ladies and gentlemen, we will take the last question that is from the line of Kunal Bhatia from the Dalal&Broacha. Please go ahead.

Kunal Bhatia: Sir, in terms of railways that is about 6 to 7% of our portfolio currently, going forward how big you see in terms of the opportunity size available and also if you could comment a bit on this order from container corporation, how big would be the size of the order? I understand it would be divided in few players, but what is the kind of opportunity basically you are looking in that case?

Dharmesh Arora: Kunal, I can give a general response to that, I may not be able to speak on the specific contract or discussions, but I can say that the railways is receiving lot of attention from us. Clearly, I think there is a lot happening on the ground in terms of railways. There is a big transformation going on in railways of the passenger side of the business, transforming the technology from the technologies they used in the past, whether it was spherical or cylindrical roller bearings to more on the taper based TAROL bearings, the speed increases, the reliability part, similarly the freight wagons are required to carry more weight which means different kind of bearings need to be developed and evolved and then long term, we also see that there is a big interest in terms of reliability to be improved and that means condition monitoring or providing surfaces which can predict the bearing performance and around bearing, various axle box performance or for that matter motor or the traction motor performance in an engine. So those are various evolving technologies where we are engaged with our potential customers in providing not just the bearing solutions, but also solutions which can provide them sensing that can provide analysis of what is going on in that environment and able to predict the performance of that system on a future basis. So those are many promising areas and we are continuing to build capabilities, we are continuing to invest, we are localising the production of the TAROL bearings, I think we are very positive and optimistic on the opportunities available to us and continuing to build our capabilities.

Kunal Bhatia: And sir any idea in terms of how, what would be the size of the opportunity meaning if the current 6%, can it almost double for us, 3 to 5 years down the line?

Dharmesh Arora: I am not sure, I wouldn't be able to comment on that but I think it will be considering that we have such a wide portfolio and such a wide presence across various sectors and we see growth across many of those sectors, I would not think that 6% can become 12%, but certainly it is a sector which may perform better than many other sectors, so it may continue to improve its percentage mix to the overall business, but I really don't think that it can become 12% in a matter of 2 to 5 years.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that would be last question. I now hand the conference over to Mr. Chaudhury for closing comments. Thank you and over to you, sir.

Vijay Chaudhury: Thank you Aman. Ladies and gentlemen, thank you for your participation. We will now close the call, but if you have any further queries, please reach out to me or drop me an email at vijay.chaudhury@schaeffler.com. Thank you and have a good day.

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