

SCHAEFFLER

“Schaeffler India Limited Results Conference Call
for Q2 & Half Yearly Results”

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Moderator: Good day ladies and gentlemen and welcome to the Schaeffler India Limited Results Conference Call for Q2 and half yearly results for the period ended June 30, 2019. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' 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. Ladies and gentlemen, welcome to the quarterly results and half yearly results call for the period ended June 30, 2019. Today we have with us, Mr. Dharmesh Arora – Managing Director & CEO for Schaeffler India and Mr. Satish Patel – CFO and Director, Finance, for Schaeffler India Limited. I now hand over the call to Mr. Arora who will take you through a short presentation on our results and over to you Mr. Arora!

Dharmesh Arora: Thank you Vijay. Good morning, good afternoon ladies and gentlemen. This is Dharmesh Arora along with me is Satish Patel and we are calling in from the beautiful City of Baden-Baden in the Black Forest in Germany and we were here last couple of days for the quarter two as well as the H1 result discussions with the Board of Directors of Schaeffler India Limited. Typically every couple of years we do have the meeting conducted in Germany with the thought of really looking at as how Schaeffler AG has growth. It is really preparing for the transformation and the future that is unfolding ahead of us. Be it e-mobility, be it industry 4.0 and so on and we had meeting in the last two days and the whole Board of Directors of Schaeffler India has convinced that the growth is preparing well and much in forward for the future, which is ahead of us.

The board also had another agenda item on part of its nomination and remuneration committee meetings where they were to consider and approve my successor in the CEO role of Schaeffler India Limited. You are well aware that I will be taking up the new role as the CEO of Asia Pacific Region effective October 1, 2019 this was announced in the past and in the last two days the board has approved my successor and I am happy to announce that Mr. Harsha Kadam who will be taken over from me from October 1, 2019 as the new CEO of Schaeffler India Limited, Harsha has been part of the company for a little over a year now leading our industrial business division something that he will retain in addition to his CEO role of future. So I am very happy and I welcome Harsha to the CEO role.

With that background, in some ways this is also my last interaction will you all in my capacity as a Managing Director of this company something, which I have really truly been honoured and humble to leave during the whole transformation including the merger of the

three entities. I would remain on the Board of Schaeffler India Limited post October 1, 2019 in the capacity as Nonexecutive Director of the company.

So with that background, let me now come to the announcements of our financial results. We have posted or shared with you some of the slides, which I will go through. Till the time you will also notice that we have a slightly different format I think it is important that as the industry is going through some big changes it is important that we spend some time to understand the context and what is happening in the environment.

So with that let me jump into the slide #3 of the package, which was sent out and this is the chart, which is showing the month-over-month development of various segments of automotive industry between 2018 and year-to-date and what you see is that month-over-month growth of the industry is there has been kind of slowing down for quite some time now and since probably November, December of 2018 we have many of the segments getting into the negative territory, which means there is actually a degrowth happening on most of these segments.

Now this is a challenging environment that as we have planned and as we have been all hoping that the industry will come back, that has not really happened so far, but once again I think we all remain very hopeful with the long-term opportunities that the industry offers that the automotive industry will come back and come back strong.

From there let me jump to the slide #4 that despite all these negative numbers that have been coming out from the automotive industry, we have been able to bucks the trend to say so and that is because of a strong presence that we have not just on the automotive, but also the industrial business and you can see that on the pie chart and the luck here that we are fairly well balanced in our business approach between automotive industry and what we see on the right hand side is demonstration that as much as in 2019 our performance on automotive has gone down it is well compensated by the increase that we have seen on our industrial business. So I think that is a good news that despite the automotive as a sector, as an industry has not done well and no surprise for us as well our industrial business has been able to compensate that lack of performance by growing very smartly.

From there now going to the next slide, that now when you look at the core sectors of industrial I think most of them have delivered fairly good results in the industry. The cement product, the steel production, the coal and the electricity generation all of them have seen growth of anywhere between 4% to 5% to 11%, which is a good news.

Now coming back to the core automotive business, which is what we are showing on slide #6 that I do not think anyone of us on the phone or on the call can deny that the industry about to come back we hope that it will be sooner than later clearly India needs increasing

mobility, aspiration and rising income suddenly provides more spendable income for everyone to buy the automotive products and with a low automotive penetration there is clearly a long way when it comes to continued growth of automotive industry in India. For us particularly I think the other trends like the legislation whether it is BS-VI or the evolving CAFÉ norms or the CO2 norms increasing e-mobility penetrations including several new OEM players who are moving into the industry and finally the ongoing changes around need for more comfort, more safety and fun to drive products. So all of that bodes well for the automotive industry and this is all supported very well by the sound economic growth with the elections behind us and the continuity of the government, the GDP growth of 7% for 2019 and 2020, we certainly see India to remain one of the fastest growing economy despite some of the softer growth we have seen in the recent quarters.

By the way I am on the slide #7 now. The budget has focused on infrastructure, agricultural, rural economy and improving liquidity all of the right areas and we hope that we will be able to take from their focus of the government on the right areas of the economy. The push to electrification as announced in the budget proposals of the immobility bodes well for the industry. The industrial growth has been 3.1% led primarily by the forward generation, but manufacturing sector grew only 2.5% we again are hopeful that this will be sustained and you will see some strong industrial production numbers in months to come.

The biggest worry rightfully is the automotive sales, which have remained sluggish for quite some time, but with the conversation, which was held we are again very hopeful that the second half should see better numbers with the talk that we may see significant amount of volatility continuing through the second half or probably even into early part of 2020. So focus clearly has to be on how do we manage our business well, how we are agile in our approach to the customers and being able to convert all the opportunities, which come.

Now let me jump into our financial performance, which is on the slide #9 and I will go to spend whole lot of time on this and these have been posted and shared with you in the last 24 hours. We reported sales of 116 Crores on the overall basis, which is a growth of 1.5% on year-over-year quarter, but is slower compared to the Q1 of 2019. For year-to-date for the first half the growth was 4.8%. The mix between the mobility and others stands at 81% and 19% respectively, automotive has maintained a share of 48% with negative growth of 5.3% year-over-year. Industrial on the other hand, which has 42% share of our business grew very nicely close to 12% year-over-year and our exports also were fairly solid for the first half growing almost 32% for our share of business of 10% overall of our business.

Next slide #10 shows our earning quality, which was significantly impacted. For the quarter we reported a PBT of 11.9% and for the first half 12.9%, both numbers, which are lower than the Q1 of 2019 as well as the overall H1 or yearly number of 2018. Clearly the automotive volume has a large role to play in this. I think we all know that in the month of

June many of the large OEMs have shutdown their production plant for extended period of time, which has affected our volumes, but beyond volumes we had adverse sales mix, but from the industrial areas we are also focusing heavily that comes to working capital environment in a volatile environment that becomes a challenging thing to do, but we have built up a stronger focus on that with dedicated teams working through that.

Slide #11 for the sake of time I am going to skip that let me get to the last slide, which is slide #13 here that despite some of the recent setbacks in terms of growth and the performance, our long-term story remains intact and we continue to build our future ready organization. We will continue to invest despite slowdown and again Q1 the first half of 2019 we have invested 159 Crores into creating capabilities, capacities, the construction of Savli plant remains on track we started two new distribution centers in the last six months, which will provide improved service levels to our customers, improved reliability to our customers. By the last half of this year we would have all our industrial, automotive and corporate functions sitting together opening of new possibilities of collaboration and collaboration and cooperation is clearly the first word as the industry go through the transformation phase. We remain focused on creating our lending capabilities in the country not just for local but the group has also decided that they will build a very large Mechatronics engineering center in India and we have already taken some baby steps, we have some engineers already on board with the objective to scale it up multifold in years to come supporting our global colleagues within Schaeffler.

Last few things of course we remain focused on creating capabilities, solutions for transformation, BS-VI, e-mobility, Industry 4.0 and supporting that with the organization capability, investing into leadership development, bring in diversity, improving and continuing to have best in class government standard compliance, digitalization are some of the other focus items. What we see on the right hand side are some of the things that are global organization is supporting very well, some of the recent acquisitions done like the Compact Dynamics and Elmotec Statomat create capabilities within the growth to create complete e-mobility power train, solutions for electric vehicles not at the transmission space but into the electric motor and the complete power train space.

Similarly some of the acquisitions like Paravan create capability for fully autonomous driving or various levels of autonomous up to the full autonomous driving. Similarly on the industrial side some of the recent acquisitions like autinity systems create new capabilities on digitalization and condition monitoring, which are the steps towards Industry 4.0. So with that let me summarize that Indian automotive industry clearly is experiencing slowdown not a surprise that you all know that we are hopeful that it is likely to recover. We will face the volatility for a while. We have reported 4.8% sales growth in first half, which confirms their inherent strength of being an automotive and industrial supplier. Our

margins are down 12.9% year-to-date we remain focused on cost and productivity measures and with those measures been taken we will benefit as the market improves their onslaught.

We are focusing on managing the anticipated volatility, but we will remain aggressive in the market place to ensure that we realize on all the opportunities this market may offer. We will stay the course of continuing to invest and maintain technology leadership. For us transformation is an opportunity is not a threat and that is how we are preparing for the future. So with that I have taken a little longer than usual, but it was important that we communicate our story well. I will hand it over back to Vijay to guide us through the Q&A round.

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

Sandeep Tulsian: Sir, first question is, if you could throw some more colours in terms of how the growth rate was between the automotive OE and automotive aftermarket and similarly for industrial what was the growth rate difference between the OEM and the aftermarket portion?

Dharmesh Arora: So the automotive OE and the automotive aftermarket typically two business slightly differently and that is how the case was in this year as well. So I think our biggest slowdown we have seen is in automotive OE business, which as I said saw a negative year-over-year growth, but the automotive aftermarket business continues to grow well for us and in the first half we have seen positive developments on automotive aftermarket, which has grown positively, but the automotive OE business has seen a negative growth low single digit negative growth that is how we have seen it and it is primarily coming from the production cuts that the automotive OEs have taken in order to align their production output to the market demand and that is how our automotive OE business, but we remain very well and well present both on the OE side, which is the spare part divisions of the automotive OEs as well as our own very strong automotive distribution business, which we call it independent aftermarket business. So I think both of those have returned positive growth for us.

Sandeep Tulsian: And on the industrial side?

Dharmesh Arora: On the industrial side, I think for most of the years we have seen a very strong growth in the industrial distributions, which has grown high double digit levels, so industrial distribution has performed very, very well. Q1 was extremely strong, Q2 we have seen small slowdown, but that is more of a comparison to a very strong first quarter we had this year and apart from industrial distribution some of the sectors like the raw materials, industrial automation for at least the first part of the year railways has been extremely strong for us. So there are

multiple other sectors within industrial apart from industrial distribution, which have done quite well.

Sandeep Tulsian: Sir, my second question is pertaining to the change in the BS VI norms, you did mention in the previous call that the content per vehicle for Schaeffler is reducing and the change that you are seeing from diesel to gasoline is much sharper than what one would have anticipated. If you could just update on how that momentum has panned out in the last quarter?

Dharmesh Arora: I know that probably might have created some scare or doubts in your mind, but let me just take some more time and I am glad that you asked the question. Well the BS-IV to BS-VI transition is a positive development for us. We have lot more content per power train available to us because most OEMs are upgrading their engine lineup to meet the new emission norms and these are happening as we speak these upgradation do not have to wait for April 2020 deadline. So I am sure you are seeing in the market place many of the leading OEMs have already launched new engines and these launches have been happening starting January 2019 already. In fact one of our largest customer, largest OEM in India has launched a new range of diesel engines, which I know, also our view that they may not continue for too long, but these are all new opportunities for us. So this whole transition from BS-IV to BS-VI is a positive development for us, we have new content on those. The negative development is the possible reduction in diesel penetration and I think this is continuing to evolve. The long-term view as we interact with customers is that the new regulations of CO2 and CAFÉ may necessitate the diesel engines to remain in the fold because inherently the diesels are more efficient when it comes to the CO2 output or for the same engine performance the CO2 generation or the CO2 output diesel engine is much lower than our gasoline engine. So there is a newer thought now that the long-term to meet not just the BS-VI regulation but the evolving CAFÉ and the CO2 norms the diesels will continue to remain an important element of the overall powertrain lineup. So I think the long-term remain bullish when it comes to the opportunities available to us BS-IV to BS-VI opens up new opportunities for us in terms of the content per car, diesel should remain in the portfolio of more to the customers for years to come in view of the other regulations apart from the BS-VI, which are happening or going to come and importantly the new players which are coming in of course we have seen PSA, Kia, Toyota announcing that Toyota has existence in India. So these are all evolving trends, which will make the content per car even more important and a bigger basket of products available to us.

Sandeep Tulsian: Sir, please pardon my ignorance here. I think there are multiple variables to this and in the previous call you did clarify that net impact on the PV portfolio for Schaeffler would be 2% to 3% because as you are mentioning now the diesel content will continue to remain as well as you have new content in the vehicles. So what would the net impact if one were to look at Schaeffler from say one to two year timeframe?

Dharmesh Arora: This I think only will depend on how well the diesels remain in the portfolio and of course one of the biggest OEMs they decide not to do any diesels I think that impacted us. We are very hopeful that the long-term possibility of diesel maintaining good percentage of over about and mix is very strong and importantly the gasoline engines, if they have to make up for the CO2 loss because the diesel is not in the portfolio will have to be upgraded to more of hybrid vehicles whether it is P2 or P3 systems and so on, which is our strong area for our opportunity. So long-term view in my opinion will remain positive though in the short-term I think just like that our business volumes are seeing some volatility we might also see some volatility in terms of the mix and so on, but the long-term view is actually a very positive than a negative number.

Sandeep Tulsian: Thank you so much. Sir wishes you all the best for your new role in Singapore. Thanks.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Kotak Securities. Please go ahead.

Nishit Jalan: Sir my first question is just a carry forward of the discussion we were having. Any specific components that you can highlight, where you will see a content increase in the PVs I think in the past you have talked about a few components like double mass fly wheel and some valve train components. If you can give some more clarity in different automotive segments which are the new products that you can supply to OE and have we already started setting up manufacturing facility for the same or we will look to import that from our sister concerns?

Dharmesh Arora: So, most of the newer power trains will have products, which we make in large volume now and we are one of the largest market share on which is the so called hydraulic lash adjuster and finger follower these are power train components Nishit that you just referenced. We produce them in our plant in Talegaon and we supply them to all the model new engines and increasingly the newer engines, which are declined or designed to meet the BS-VI norms increasingly those engines are shifting or switching over to using this technology so that is something you have been too locally. Apart from that the continuing trend of engines becoming smaller I have mentioned in the past that will require new dampening solutions because of the higher level of harshness or vibrations that these engines experience so when you go from a four cylinder to a three cylinder engine it is by design creates more vibration and harshness and to suppress that or to provide a nice comfortable driving experience to the consumer you need to have more damping solutions. These are solutions, which is the strength of our business brands look, which is coming out of Hosur so once again those are the solutions like that are given in my slide if you talk about, but beyond that there are many other solutions, which go into the clutch solutions which are advanced damping solutions fit into the clutch itself and once again those are pretty used in Hosur. The dual mass fly wheel, which we are supplying to some customers today is an imported solution

from our group companies, but as the volumes pickup we would of course look forward to considering producing such a solution also in India.

Nishit Jalan: Sir my second question is, if I look at on margin side, despite the revenue being flattish we have seen almost a 15% kind of a cost increase on both employee side and other expenses and given the fact that you are taking initiatives on reducing cost in terms of warehousing cost and all those things so I am little surprised as to why the cost have gone up so sharply is there any one off here that we are not aware of or if you can throw some more light on this?

Satish Patel: Nishit let me just take this question. As far as our half yearly performance is concerned your question is right that we have grown on topline by 4.8%, but the profit before tax declined by 12% and after tax by 15%. We have couple of reasons for that there is a little bit of adverse sales mix so the material cost is not in line with sales, but slightly higher than sales so the material cost went up by 5.2% against 4.8%. We have sales mix as you know automotive and industrial business for approving not in parity also we have manufacturing and trading business so there is a little bit of sales mix impact. On the production side we have not been able to improve in order to respond to market and that has impacted on the fixed cost absorption, which we are not able to flex in a very short time so that has impacted the relative performance of the profitability. Yes on the personal cost side there is an increase because of the wage increase in this year we have the settlements due and we have to actually consider certain cost increase on account of the wage. We have been trying to actually contain the cost, we are working on several cost reduction measures including cutting down or actually not increasing on the headcount. Also we are working on several other projects on the cost reduction side, the impact of that might come later but as of now for the immediate quarter there have been some impact of the flexing of the cost, which is a challenge in a very, very short term. So in the relative performance, yes, there is a profit decline because of these reasons compared to the topline performance.

Nishit Jalan: Just to clarify when our auto revenues have come down ideally our inhouse production would have come down and that should have led to a reduction in other expenses right, but on the contrary our other expenses have gone up by 13% on a half yearly basis and 15% in the second quarter, so that is a bit surprising?

Satish Patel: Yes, so other expenses does contain in addition to production quite many selling administration and general expenses, which have not reduced so significantly in line with sales as I say that a large portion of this expenses is fixed in nature and we are not able to contain in a very short-term of the quarter. So yes there is impact of the relative increase in expenses compared to the sales.

Nishit Jalan: Sir my third and final question would be on capex as you had highlighted that you have incurred almost 170 Crores, 180 Crores in first half and I think you are guiding also for 300 plus Crores Capex in the full year. Just wanted to understand what are the different segments where you are incurring because what I understand is you are looking to increase localization in one of your entities like INA while in certain segments you would be looking to expand capacities, so just wanted to get some more clarity as to how the capex is divided between different entities or maybe say different types in terms of capacity expansion or increased localization?

Dharmesh Arora: On the capacity side there was investment this year is going into expanding our Savli plant footprint, which is the plant in Vadodara and this plant was established in 2012 and this is our most model plant that we continue to build, it makes small size deep groove ball bearings, which go into sectors like two-wheelers, but also into several industrial sectors where low noise, low fiction bearings are required. The plant also produces large size bearings up to 1.2 meters in diameter, which go for windmills, which go for railways, which go for power plants and so on and demand for all those bearings is continuing to increase. On the wind particularly despite the local market not developing as well for the last maybe a year or little over a year I think India is also becoming a hub by some of our customers for producing the windmill for their global requirement and that has continued to push demand on the plant and we are building new capacities in Savli. So a lot of this investment is going into Savli for plant capacity expansion. Then we continue to invest for building capabilities of product engineering as well as for improving a depth of localization that is something we remain committed to and we will continue to do so. We have some capacities also getting relocated from some of our global plant into India to build more export capacities out of India. So as part of the global manufacturing footprint of the migration of the growth India is gaining in terms of... becoming a hub for some increased capacities of specific bearing type primarily for industrial businesses where are these bearings will be produced in India and export it to our group companies around the globe.

Nishit Jalan: Okay Sir, thank you.

Moderator: Thank you. The next question is from the line of Aditya Makharia from HDFC Securities. Please go ahead.

Aditya Makharia: You did mention that with electric vehicles coming in that would be an opportunity for you. The question I have in my mind is of the internal combustion engine sort of were to give way to a motor would not that mean a loss of business net-net for you?

Dharmesh Arora: Yes, if you were doing nothing else and just continuing to produce what we are producing today then you are certainly right that some of the components I had just mentioned for example those hydraulic lash adjuster those are typically required in internal combustion

engine so tomorrow we were to switch to 100% electrics and those now trends would not be required that is true, but the good part is that the one the transition is not going to happen tomorrow so there is still a continued growth of internal combustion engine still happening and we know from our interaction with our customers that we have been building new capacities for continuing to support their requirement of making this internal combustion engines more efficient to meet norms like BS VI, to meet norms like CO2 production, CAFÉ norms and so on.

Now coming to the question of the mix what will happen in future is that the OEMs will continue to make their internal combustion engines more efficient, reducing CO2 emission and then they will also be creating other electric capabilities whether it is the hybridization or a complete battery electric vehicle and depending on how the CO2 norms or the CAFE norms evolve in years to come, they will tweak their mix of production such that they either produce more of electric vehicles or less of electric vehicles so that they can meet the CAFE or the CO2 norms that the government would establish for 2023 onwards. So I think that is how we see the world could be evolving. For us, we have solution basket available for both hybridization and electric vehicles as well.

Now in electric vehicles, it is likely that we may not just be supplying a hydraulic lash adjuster we might be supplying a complete drive train for example and that complete drive train has a lot more content possible for us than just a hydraulic lash adjuster so I think that is how you have to do it that the opportunities that open up on electrification for us in many fold in terms of the amount of opportunity per vehicle available. The key question is how are we placing ourselves with the customers to realize as much potential of that from the customers.

Aditya Makharia: Thank you.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

Vimal Gohil: Sir my question pertains to our segmental performance. If you could just give us some more detail on how the passenger vehicle to two-wheeler, tractors has done and then I will probably have a follow-up on that?

Dharmesh Arora: Well typically we run our business by business fields and business field for us are like engine transmission and chassis components because typically now an engine component that we supply to a passenger vehicle sector can also go into commercial vehicle and for that matter even a tractor customer because they all have internal combustion engines as a power train. So I may not necessarily be able to give you precise numbers when it comes to those sectoral views that you asked for but what I can generally say is that this year we have

seen slowdown in all of those sectors. Again now we are comparing ourselves to a very strong performance particularly in the H1 of 2018 where the commercial vehicle sector had grown in excess of 22%, 23% in the H1, the passenger vehicle industry had grown maybe 7% to 8%, the two-wheeler again was a very, very strong in the second quarter of 2018. So I think considering the very high pace we had in H1 of 2018, 2019 clearly has been a low performance across the board. So once again I may not have a precise number to provide you, but I can only say that for us engine and transmission components have generally seen a sort of a bigger slowdown, chassis components have seen actually nice growth on the other hand which is a reflection of some of the technological changes the customers have been doing and to a great extent that is independent of maybe some of the transformation happening in the market place when it come to regulations.

Vimal Goel:

Sir in the last call you had mentioned about approximately Rs.450 to Rs.500 Crores of revenue synergies to come in the longer-term. So would that come in from next year or how would that be. Same is for cost as well you had mentioned some cost synergies also to come post the merger of the rest of the India entities. So what is the update on that?

Dharmesh Arora:

We continue to work through what we call a post merger integration project. So we have a large functional team abbreviated BMI team, so the whole merger project for us is not closed, it has been closed from the legal perspective that we have closed the merger in October 2018 but realizing the synergies and the benefit these project teams will continue to work until at least the end of 2020. And like I said in the last some months, we have opened up two new warehouses. Now these warehouses are primarily operated by 3BL external service provider. So we do not have sort of our own people trying to manage warehouses. There is something which is outsourced you might see that our headcount for example for last several years has been fairly flat, but that is because we have been able to flex the extended value chain which is available, the capability which might be available with our supplier with the supply chain partner. In doing so, our logistic cost as a percentage of sales is continuing to go down. We had started this project back in 2015. At that point of time, our logistics cost as a percentage of sales was in excess of 9% which as we speak has come down to close to 7% with the ultimate target that we want to bring it more closer to 6% level. So we continue to stay on that task. We did open up also in the last three months to new consolidated sales officers. So for example in Chennai, we had three separate sales officers by the three different entities. We opened up a new office now, which is consolidated single office where all the employees of all the X, Y, three companies sits together under one roof. We have the same approach already implemented in Bengaluru also in the last three months. We have two new offices which have been opened up in Bengaluru and Chennai. Apart from reducing cost the idea of this is that when everyone sits together, we create new possibilities or collaboration and cooperation and that synergy results into increased level of business opportunity for us. The same thought will be extended into our corporate office where the business divisions and the corporate functions

will also be collocated in Pune in the last quarter of 2019, once again not just from the cost perspective but more important for us is to how the transformers or how we place ourselves effectively and strongly have realizing new business opportunities. So I have not probably included a specific update in this investor call but maybe I take your feedback and probably in the next investor call, we will bring an update as to where do we withstand on the outlook we have provided as part of the merger on the synergies coming out from this project.

Vimal Goel: Great Sir. Thank you so much. That is all from my side.

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

Lakshmi Narayanan: I have three questions, first question is regarding the railway business which you mentioned I want to know what is the opportunity size and where are we in the last one year or six months. Second is, if you look at the business in terms of the three former entities in terms of Schaeffler, INA, and LuK where the slowdown has been large in terms of stock rank and the third question is regarding tractors or the off-road vehicles so what proportion of revenues broadly comes from that. You said you do not look at the business in that way but just to get a sense of it and what and how much it has actually grown in the last six months or so? These are the three questions

Dharmesh Arora: So the first question around railways, so railways has been a nice success story for us a growth story for us. So railways continue to grow very well for us I think you know the transition kind of which has also happening in the industry going from the traditional CRB bearings which were used in the sector to more the role base which is the paper roller based bearing and these transitions are driven by that your metro trains, that your high-speed trains or the higher capacity of freight wagons which are being introduced and including the LHB coaches which are being introduced by the railways. So our presence on this is continuing to evolve very well. We had started these our own projects several years ago I think I had mentioned about it is a long gestation project in the sense that there are several approvals required by the so called AAR approval. So this is an American Axel Road approvals which you need enable to get the complete release on these bearings and we have received now all the approvals for the bearings. Since last year and our plant in Maneja is qualified not just to supply to Indian Railways but also to export these bearings to many other regions around the globe including potentially Americas and depending on how to trade issues around the world evolve, but anyways I think our growth in India was close to 30% in the first half of this year on the railways so that is a very, very smart and strong growth that we have seen in railways. We have the capacity built up in our plant in Maneja's to build this bearing including the refurbishment of the roll bearing as they comeback from metro trains another applications once they complete their first phase of

life, the refurbished and resupplied pack to our customers. So that is as much as the railways are concerned.

Your second question as to how from the brand's perspective looking in FAG how the business has evolved in this year if you look at our business mix, industrial has been extremely strong for us and industrial primarily is FAG business with some amount of business coming from INA. So FAG and INA are the beneficiaries of industrial business continuing to grow. Automotive business is actually cut across all three. LuK is 100% automotive, INA good part is automotive and FAG has some automotive so when you look at automotives and industry per se has not done well I think those are the three brands which would be affected because automotive has not done well. On the other hand, I did mentioned that the chassis business for example has done very well for us including this transition which is happening in the truck business where new unitize or once the field bearing are being introduced in the axel by some of the customers which we have a business on from our FAG brand so that has been also beneficiary of this technological transformation happening. Your last question on tractors, the offload vehicles last year once again if you were to look at tractor had grown very, very well in the first half including the construction equipment business whilst setting new sales record when it comes to backhoe loaders and excavators and stuff like that which were being used in infrastructure sector and construction sector. So both of those you have seen slowdown in this year, the production numbers that are at our tractor customers as well as construction equipment manufacturers have been slow and that business now certainly has also seen for us also a slowdown. Overall I think I would say on the industrial side about 3% of our business must be tractor based whereas in automotive side it would be close to... I do not have the number in front of me but Lakshmi if I have to make a guess, it should be close to 10% of our business must be coming from tractor for all the clutches, dual clutches that we supply to tractor customers.

Lakshmi Narayan: You mean to say that the 10% from the overall revenues of Schaeffler India right now around 13% would be from tractors and...?

Dharmesh Arora: 10% of our automotive business so that you will have to multiply 10% by 50% which is our automotive business, so 5% on India level and 3% of industrial business so that would be more like maybe I would say 9% or so of Schaeffler India business.

Lakshmi Narayan: Got it, thank you so much.

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

Shyam Sundar Sriram: Many congratulations to Ramesh for the elevation sir. My first question is on the aftermarket, you said the aftermarket on the automotive side has seen positive growth. How much if you can quantify that and the contribution to the overall Schaeffler sales on the auto aftermarket, similarly on the industrial side also if you can please help us to understand the growth and the contribution to the overall revenues?

Dharmesh Arora: So, automotive aftermarket contributes... 10% of our Schaeffler India business comes from automotive aftermarket and that has been a very strong business for us and for automotive aftermarket Shyam, we include both OES business or original equipment supply business that we supply to automotive OE customer for their aftermarket needs and our independent aftermarket. So both of them included should be close to actually 8% I would say. 8% of our Schaeffler India business comes from automotive aftermarket. Within the automotive business that will be double that right I mean since automotive business is half of our business so 16% of automotive business or 8% of our Schaeffler India business comes from automotive aftermarket and that has certainly been on the positive territory for first half of this year.

Shyam Sundar Sriram: Sir same thing on the industrial aftermarket?

Dharmesh Arora: Industrial aftermarket would be close to 16% of our overall India business, Schaeffler India Business UP industrial distribution business, and this goes not just for aftermarket needs, but through our distributors some of that business also finds its way for original equipment manufacturers. So I would say about 16% of our overall Schaeffler India business is contributed by industrial distribution or industrial automotive business. And also it has been a very high, sorry, I just wanted to add (inaudible) 49:58 has seen high double digit growth for the first half of this year.

Shyam Sundar Sriram: Thank you Sir, that was helpful. Sir, on the employee cost Mr. Satish mentioned that the employee cost have increased because of wage settlement is it now settled, now will this be the current run rate there in?

Dharmesh Arora: Sorry we missed your question Shyam can you please repeat?

Shyam Sundar Sriram: On the employee cost Sir we have seen substantial increase on a quarter-on-quarter basis about Rs.8 Crores, Rs.9 Crores has increased you mentioned that is due to wage settlement is it now done and is this the current run rate that is to be expected barring the any movement in casual labor per se?

Dharmesh Arora: Yes it is more of a provision it is not yet done it is due and therefore provided for, so it is normally due from 1st April so that has impact in this quarter which was not there in the previous quarter which was Q1 of our financial year, we follow calendar year of the

financial year so in Q1 that impact was not there. In Q2 because of the provision that impact us. Also there is certain timing difference in the employee cost we have the annual wage increase and the salary increase as well that is normally provided from the beginning of the year that is from January; however, the payout happens in the Q2 following the financial year as far as the salary payments are concerned. So when you payout your payout is slightly higher or lower than the provisions so some adjustment, the difference of this provision to actual of the payout as well as the wage increase provision that I explained impacted the Q2 employee cost which is relatively higher than the quarter.

Satish Patel: And this wage settlement for the unionized or for the client employee typically happens once every three years. So you see a sort of that impact it back when that wage agreement becomes due. So this kind of a timing topic is not like every quarter topic but happens like one quarter every three years and that is what you see in this Q2 of 2019.

Shyam Sundar Sriram: So this Rs.90 Crores could be the run rate for the remainder part of the year as well?

Dharmesh Arora: Yes, whatever is there in Q2 would just remain there because that amount would anyhow be paid out later part of the year and it would be a recurring sort of expense which will remain also in the future years.

Shyam Sundar Sriram: Right Sir and on the other expenses again we have seen a Rs.20 Crores sequence quarter-on-quarter increase in other expenses while I understand you could not control the cost, the reason for this increase in other expenses, are there any particular reasons if you can please throw some more light on that?

Dharmesh Arora: So, we did incur certain special expenses in this quarter which were not there in Q1 and normally we see expenses and other income together. Unfortunately other income declined in this quarter. We had certain sort of write backs, certain tax refunds, certain amount of the provisioning on the receivables being lower in the previous quarter. So all those were actually reflected as part of the other income in the previous quarter which is lower in this quarter. In addition to that we had certain special expenses in this quarter some of them are one-offs definitely some of them are impacted because of the fixed cost impact as I said the expenses have certain yearly sort of an impact nature. Those expenses are difficult to immediately reduce in a quarter so those are the two impacts and result thereof is that expenses are higher in the quarter compared to the topline.

Shyam Sundar Sriram: So of this Rs.20 Crores how much could be the one off expenses Sir?

Dharmesh Arora: About Rs.7 Crores to Rs.8 Crores.

Shyam Sundar Sriram: Understood sir. Sir, and just one more question, you mentioned chassis components continue to see nice growth, these are essentially the bearings part of the business when we talk about chassis components?

Satish Patel: Yes they are primarily FAG brand bearing business so we could be talking about here gen 1, gen 2, gen 3 wheel bearing for example. I talked about the unitized 1T truck bearing for example for heavy freight trucking which are moving from traditional bearings to more field for life, low maintenance or no maintenance wheel bearing that is something we are building a very strong business with local OEMs and then you also have INA brand products into many chassis components here the bearings could be going for example in a air-conditioning pump, it could be going into an ABS pump and ABS as you know is a growing commodity growing product line in India so we supply bearings even for ABS pumps. This could be bearing which is going into a strut or a strut assembly cotter module of a vehicle so these are many different bearings which go into many accessories on a vehicle including various kinds of wheel bearings.

Shyam Sundar Sriram: Sir you mentioned dual mass flywheel that could currently even the 1.5 liter Maruti and new diesel engine is using, but the DMF is largely for the diesel engines if I am not wrong Sir. Can you please clarify on that and petrol engines may not see so much need to dampen the vibrations is that right?

Dharmesh Arora: Well the quantum of the dampening required is clearly different, I mean, diesel inherently more harshness vibration so the dual mass flywheel you are right are predominantly used on diesels but depending on the refinement expected DMFs are also used on gasoline but more importantly what the DMF uses is the dampening technology of Schaeffler which is the core capability and the competency and these dampening solutions will find or are finding their way into the clutch component, including we have something like a pendulum-based clutch solution which is a clutch disc which has some of the benefits of the dual mass flywheel built into the clutch itself and these are the kind of solutions which will find their way and are finding their way into gasoline engines. So I think the core capability is the dampening. The quantum of dampening required it is a little higher and hence you may use the dual mass flywheel. On gasoline engines you may use at the same dampening technology but associated with a clutch.

Moderator: Thank you. I would request Shyam Sundar Sriram to come back in queue for followup question. We will take the next question which is from the line of Gautami Desai from Chanakya Capital. Please go ahead.

Gautami Desai: I have one key and one question. My request is that your couple of past concall transcripts are not available anywhere nor on your website or nor on the any of the databases that we have so if you can please provide that and my question is that how July month the past 24

days was not your insight on auto as well as industry, has the July month been better than June or flat or what growth and what is your take?

Dharmesh Arora: Let me take your first question. As per your question on transcripts are concerned they are actually available on our website all the past investor call transcripts are available. If you have difficulty finding it please do reach out to our investor relations in-charge Mr. Vijay Chaudhury and he would be happy to provide you the transcripts.

Satish Patel: The other question Gautami in terms of how does the future look like, well I am sure you are in touch with many other automotive colleagues on the OEM side as well as component industry side, I think we do get the feeling from interacting with the OEM customers and by the way we are significantly increased our contact with the customers because of all the anticipated volatilities that we need to stay very close touch with them. We have seen some better numbers when it comes to tractor for example for the month of July so we hope that trend only continues on the other sectors we do not at least in this month we have not seen any major changes when it comes to the volumes, but a long-term again the customers are still building their thoughts as to how this whole transition to be a fix will happen and how that they can prepare this transition and keep us particularly the Tier-1 and then for us to keep our Tier-2 and Tier-3 onboard that we do not either fall short of the opportunity which comes by neither do we shutdown any of our customers I think it is an important time when we have to build up our agility, build up the possibility that the market may evolve fairly quickly or make change fairly quickly and we need to be able to respond to those changes also fairly quickly.

Gautami Desai: Fine Sir, thank you.

Moderator: Thank you. The next question is from the line of Sagar Shah from Alpha Advisors. Please go ahead.

Sagar Shah: I have just one question actually. Can you throw some light on the capacity in utilization front on both automotive and industrial fronts and all three entities combined?

Satish Patel: The utilization on industry of course has remained high in this year with the continuing development that we have seen on the industry so the two plants Maneja and Savli have seen higher level of or high level of utilization. The plants in Hosur and Talegaon having higher business with the automotives have seen lower numbers. So Maneja probably would have seen close to 90% and 75% utilization respectively so Maneja in excess of 90% Savli close to 75%. The plant in Hosur would have seen a utilization of close to 66%, 67% and the plant in Pune is close to 65% utilization. So that is how the year has been again it is a reflection of the sectors that they support. We have taken measures just like many of the auto OEMs including component manufacturers of taking some shutdowns in our plants to

align our production capacity with the demand and also in the process reduce some of the possible overhead cost that you can things like air-conditioning, things like electricity, and things like parking or the transportation things like cafeteria so I think those are the costs that we are able to flex, if we are able to have some extended plant shutdowns and something we have taken as it was required in Pune and Hosur and will continue to monitor this pretty closely.

Sagar Shah: And my followup question was basically when do you see our actually CV industry specially the passenger vehicle industry pickup actually when do you use the actually the industry, actually recovering from the current moves that is going on?

Satish Patel: Well I guess the collective judgment in this call hopefully I would have love to hear that from you but here you are now, jokes apart I guess we hear that we work very closely with the customers and customers still remain very positive in terms of course the long-term or the mid-term opportunities which the automotive industry offer and like I said we had not necessarily slowing down on creating that capability for future. Having said that of course we need to do everything to make sure that quarter-over-quarter you can report the good results and that is about cost management that is about realizing every possibilities for us. We do think that towards the end of the Q3 the market has to pickup particularly has been prepared for this mode transition or as mode as it possibly can be between BS-IV and BS-VI emission standard but clearly I think we have to be compared that the next few quarters will remain volatile.

Sagar Shah: Thank you Sir. All the best.

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

Vijay Chaudhury: Thank you, ladies and gentlemen for your participation, we will now close the call. If you have any further questions, 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. On behalf of Schaeffler India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.