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“Schaeffler India Ltd. Results Conference Call for Quarter 3
& Nine Month results for the period ended September 30,
2019”

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Moderator: Ladies and gentlemen, good day and welcome to the Schaeffler India Limited Results Conference Call for Q3 & Nine Months Results for the period-ended September 30, 2019. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury from Schaeffler India. Thank you and over to you, sir.

Vijay Chaudhury: Thank you. Ladies and gentlemen, Welcome to the Q3 2019 Results Call for Schaeffler India. Today we have with us Mr. Harsha Kadam -- CEO of Schaeffler India and Mr. Satish Patel – Director, Finance & CFO, Schaeffler India. I will now hand over the call to “Mr. Kadam who will take you through Short Presentation on our Results Update”, and over to you Mr. Kadam

Harsha Kadam: Thank you, Vijay. Good Morning, Ladies and Gentlemen. It gives me great pleasure to connect with you people and along with Mr. Satish Patel – the CFO, here in our new office in Baner, Pune, which we just moved in a month back.

Well, we just had our board meeting yesterday and I would like to take you briefly through the presentations and I am on Slide #3 of my PowerPoint presentation. Well, third quarter has been a pretty stress quarter in terms of the demand particularly coming from the automotive sector which was under severe stress in Q3 of this year. The situation seems to have worsened from Q2 in terms of demand from the automotive sector. However, with our balanced portfolio what Schaeffler in India enjoys between the industrial and automotive space, we were able to delimit or mitigate the damage that could have happened to the sales revenue side. The demand volatility has put big challenges on the working capital management. However, actions what we have put into place have helped us to mitigate the situation to a large extent, lot of measures on the cost cutting side which we have effected also has helped us, and the costs flexing that we were able to achieve was one of the successful and positive achievements in the third quarter which have helped us to ensure the numbers put on a much better result than what could have been a poor result. However, looking at the outlook, the Q4, still on the demand front does not look good and all the OEMs whosoever I have interacted with and met are confirming that they still do not see the positive developments in the forthcoming quarter as well. Although the government in its own effort is trying to correct the situation by way of various actions on the rate cuts and trying to improve liquidity in the market plus the measures of revising the corporate rate tax, that has to some extent probably has helped many of the companies; however the full impact and the results from the market demand point of view is still to be seen.

I move to the next slide which gives you an idea of automotive industry and the continuing deceleration. As you can see, the passenger vehicles, commercial vehicles, two wheelers have shown a downward trend and they are way below double-digit growth rates in a negative in the third quarter as well. What we see going forward is there is some resemblance of kind of recovery from the tractor segment. Probably this is because it is coming on the back of a very good and prolonged monsoon season that India have enjoyed, but the other sectors, the commercial

vehicles is way down; if you look at the numbers the commercial vehicles is down 70% and passenger vehicles is down 12%, so it is a strong double-digit degrowth in all the mobility sectors what you see here. So, overall automotive industry is down 11.6% as you can see.

I move to the next slide which briefly talks about Schaeffler's portfolio distribution. And as you can see between the industrial and the automotive portfolios of sectors, we have a pretty balanced portfolio spread and that kind of helps us because the industrial part of the business, the demand still is positive and Schaeffer has outgrown the industrial growth rates and industrial part of the business. The bar graph to the right side gives you a picture of comparison over the last year how the two portfolio sectors have performed and as you can see the automotive has seen a substantial drop while the industrial have had some pretty good growth. So, this is kind of helping us to offset the impact of the negative phase from the automotive side of the business.

I come down to the next Slide #6 which is talking about what you see is economic situation. I am sure all of you are familiar with these. As you can see the continuing slide of the GDP which currently now been estimated around 5% and the index of industrial production which is more relevant to us is some cause for worry and as you can see in the month of August it has gone down below the zero and that is a concern area for us and the same is the case with the core industries, as you can see the first half of the core industries performed very well; however, in the second half we do see some slowdown and some decline beginning to happen even in the core industries as well particularly in the cement sector, we do see already a slowdown that has been visible for the last three months. While the government has been able to manage inflation rates, this I guess is coming on the backdrop of the fuel prices and the foreign exchange both have been pretty stable and as a result of that the inflation rates are still holding on at around 3.2%.

I will move on to the next slide which will give you picture on the core sectors and as I mentioned earlier when we look at the cement production, the growth is just about 5%, but when you look at the bars in each of the month, August was a lower month than July and September was equally down. So, there has been a consistent slowdown in the cement production in the country and while steel still remains little flat; however is not at the same level as it was in the first quarter and the second quarter of the year beginning, and steel still continue to grow at about 9% that in August same level. Core production as you can see again shown a downward trend and energy has also gone down a bit in the month of September. So, all in all, there was a lag period between the industrial sector and automotive sector; automotive led the downslide in the market and the industrial is just following a few months later and that is what we see happening right now.

I move to the next slide which is on the mobility side for us. And when you see all the four sectors which I earlier mentioned, two-wheeler is down 10.4%, commercial vehicles is down 17% in September and passenger vehicles is down 12% and tractors is down big time 16% although in the last couple of months tractors have started to show some recovery. So, all the two wheeler manufacturers have shown a lower growth rates and their margins too are under

pressure. Commercial vehicles, the recovery seems pretty long, we do not see the recovery very soon happening even in the first and second quarter of next year as such.

I move to the Slide #10 which talks about the revenue from operations and as you can see here Schaeffler India we have posted Rs.1,035 crores in the third quarter of this year which is 7.3% lower than the previous quarter due to wherein we had posted Rs.1,116 crores. And if you look at the nine months period of this year compared to the nine months period of last year, we have posted 1.5% lower sales revenues, and if you were to look at Q3 this year versus Q3 last year that is 13% down. So, clearly indicating that the automotive sector the drop has been so severe that much as we have done better on the industrial side still there is a drop into the sales revenue.

Some of the key aspects which I want to highlight on the mobility segment as you see. If you were to group together entire mobility segment as such, the growth rate is (-4.7) on nine months period and if I were to group all the industrial sectors on one side and look at the performance of Schaeffler in these sectors, our sales in these sectors have grown 14.4% on a nine month period, clearly indicating that on the industrial side we have performed pretty strongly, on the automotive side we still have some number to catch up.

The graph below what you see is giving sales mix of the automotive, industrial and export part. The automotive as you can see is 47% of the total sales composition, industrial is 42% and the export in 11%, and as you can see the industrial part has grown 6.4% year-on-year, export have grown 18.6% and the automotive is on 11% as I have already said that.

How have this impacted our earning quality? And as you can see on the profit before tax, what is shown here, we have posted Rs.115.4 crores in the third quarter of this year, which is 11.1% margin, and if I were to take the nine month period on the PBT, at Rs.410.5 crores, we are down 21%. So, this would bring down PBT at a nine month level to 12.3% for the same period which was at 14.8% last year. So, clearly indicating that the automotive volumes continue to be lower. The earning quality would have been far more worse which if we have not taken some drastic measures and necessary steps to correct the same and there have been plenty of work done by all the plants and the team here in flexing the costs in line with the demand situation and we have managed our working capitals continuously and we are still working on addressing our working capital and the cash flow situation. So, some more numbers would come later as we move forward in the presentation.

Satish, do you want to add here?

Satish Patel:

Yes, just to add a couple of comments to what Harsha mentioned about the profitability performance again staying back on Slide #11 is regarding the operational performance. So, although the before tax declined because of the fixed cost impact mainly of the depreciation causing because of the lower utilization of some of our plants going to downfall in automotive; however because of the cost flexing efforts, we could sustain the operating result, which is EBITDA of 14% for the Q3 as against 14.3% for Q2 of this year. So, Q3 performance of EBITDA remain more or less in line with previous quarter despite the fact that sales declined by

7.3 % in this quarter and that was a result of the concerted cost flexing and cost reduction efforts in direct as well as indirect areas across our plants and across all our functions in the company.

And coming to Slide #12 now which contains the key indicators as already highlighted by Harsha, revenue declined year-on-year by 13% in this quarter and on a cumulative basis 1.5% and the operating margin which is EBITDA stood at 14% as against 14.3% of the previous quarter. Heartening to note is the profit after tax margin which is at 9.1% in Q3 and if you look back and see 12-months full year 2018 profit after tax was 9.2%. So, we could reach level of profit after tax same as last year despite the fact that we have been faced with certain downfall in automotive, certainly, the result of costs flexing efforts, good working capital management, good cash flow generations, sustaining the cash flow generation and certainly some external impacts more to say so about the corporate tax rate cut. We have been having certain benefit of the corporate tax reduction as well and that helps achieving the profit after tax to a level we already realized last year.

I would hand over to Harsha to take you through Slide #14.

Harsha Kadam:

Thanks, Satish. We are not just sitting idle on this and surely there are host of actions that are underway, actions on the market front, actions on continuing to build the brand front. So, one such initiative what we did in spite of all the downturn that we had was to create a stronger pull from the aftermarket business of the automotive OEM and we have launched vans wherein these vans are used for imparting training to all the mechanics in the field and these are not just theory, they are theoretical, but they are also video-based as well as hands-on mechanics would work and the van is fully equipped, air-conditioned so that 8-10 mechanics first session which would cover about 3-4-hours and this is to ensure that we bring in a very professional fitment and repair competency before mechanics and at the same time of course build a stronger Schaeffler brand in India.

Apart from this, I would also like to point out that in spite of the slowdown that is there, we have not cut down our investments, we continue with our investment plans in expanding our capacities at Savli which is ongoing and as well as we continue to stay focused on our operational excellence initiatives and costs flexing, not to mention that a host of new projects with our customers which is going to address the needs of the future market that is coming up and we are gearing up for it with new products and new projects are already underway. We are continuing to focus, and we stay positive and optimistic that the markets would return back. So, it is a question of how well we can manage the situation until the market bounce back. That is it from my side.

Moderator:

Thank you. We will now begin the question-and-answer session. The first question is from the line of Sandip Tulsian from JM Financial. Please go ahead.

Sandip Tulsian:

Sir, my first question is pertaining to the mix between petrol and diesel vehicles which we had highlighted two quarters back that you were observing a sharp shift in the volumes as in from the diesel vehicles to petrol in the months of March and April but was too early to comment on

the trend. Would just like an update on that how are you seeing volumes going forward since we are closer to the BS VI norms change?

Harsha Kadam:

If you remember, the percentage of the diesel composition in the passenger vehicle was 34% in 2018 which this year end of September we are looking at a number of 23%. What it means is approx. every 100 cars that are produced, only 23 cars of diesel today as against 34 which was last year. And our analysis shows that this number is going to further go down and next year we estimate this should be around 16%, this is what we believe. However, there have been some interesting developments as well; customers are not giving upon diesel because the CAFÉ norms that would be coming in, the diesel as a technology still offers a better option to address both the fuel efficiency and the CO2 emission part. So, all the while this has been on the cards that they have announced that diesel they would stop producing. If you look at what has happened, it is the 1 Ltr. and 1.2 Ltr. diesel engines that are actually getting converted to gasoline; however, the higher CC still continue to remain in diesel because of the fuel efficiency advantages they offer. And I am sure I did hear yesterday even outside India there is a lot of investment that pumps into developing better diesel technology to improve the fuel efficiency further to address the CAFÉ norms. So, surely while the trend is down but we are also preparing to see how can we still continue. Well, if diesel continues to get an extended life span, yes, our products are already there, and we will continue to claim that space as well.

Sandip Tulsian:

Just want to know from a company perspective, how will this pan out once the share goes down to 16% both in terms of content per vehicle for Schaeffler India and secondly in terms of profitability on the gross margin front?

Harsha Kadam:

Let me take the first part of your question. While yes, the diesel, as I said earlier, we are seeing decline and the gasoline is picking up, we at Schaeffler definitely are in gasoline game as well and we do have a host of projects already with our customers which is ongoing. And what you will see coming forward is these projects would result into fructification into business very soon. We have a host of projects, be it in the passenger vehicles, gasoline engines and the largest OEM player of course we are there or be it even on the gasoline engine automotive components like clutches we are there, be it the engine systems, we already have our products which are getting tested and validated or be it even if the diesel extension were to happen, we have the next generation of products which will participate in these projects with the customers. So, from a technology shift perspective, well, we are ready for the challenge, we already have the projects underway. Now looking at the content per vehicle, the question which you asked, surely what we see is current content per vehicle as a diesel we were in the range of little more than Rs.3,000 per vehicle which we see with the gasoline, we will be crossing the 4,200 mark easily. So, what it means is our content per vehicle is going to be much-much better in the gasoline vehicle as well. So, as I said earlier, we already are there in the diesel and with the ongoing projects which very soon would begin to happen this quarter, so we are strongly positioned even in the gasoline as well and that is going to get us a higher sales revenue and better margin as well because the advantages we are able to bring in the latest kind of technology into the gasoline engine as well.

Moderator: Thank you. The next question is from the line of Nishit Jalan from Axis Capital Limited. Please go ahead.

Nishit Jalan: Sir, my first question pertains to the auto segment. Just wanted to understand how the growth been in the replacement market both on the autos and industrial? You highlighted that the industry volumes in CVs down 17% and PVs down 12%. Just wanted to understand how was your performance and were you able to gain any market share in any of these segments?

Harsha Kadam: Let me break your question into two parts: The first one on the automotive aftermarket what you are referring to and then I would like to take the industrial aftermarket. As I said earlier, the automotive OEM market is down 12% as you can see we believe and particularly the commercial vehicles is down 17%. On this backdrop we have performed much better on the aftermarket part of the business because we have seen a positive growth of almost 1% better than last year. So, it clearly goes to show that our concerted efforts and what you saw in my presentation is just one small step and there are many such efforts we are putting in to continue to keep the focus on the automotive aftermarket part of the business. We have also lined up a host of new projects be it on the clutches and on the engines our efforts to bring into the market will continue. So, on the automotive aftermarket side, yes, we will continue to do more but currently we are in a much favorable position there. What definitely has affected a little bit is on the OEM side of the business which is still remaining a large chunk of our business on the aftermarket but going forward I am sure we will be able to change this distribution between the OEM and the pure distribution market. I will come to the second part of your question which is on the industrial aftermarket and there I must say we have done really well, we have grown 16% better than last year on a nine month period, we have beaten in fact the industry growth rate, has been just about 6% but we have outperformed that on the industrial aftermarket side, and we have been able to leverage the capacities from across the world as well as within our plants here. One major step that we did take was we localized a lot of bearings which we were importing last year. So, that has helped us to improve our capacity utilization in the plant as well as reduce the delivery times to the market and also the availability situation has improved now and thereby we were able to post much better numbers of 16% in the industrial aftermarket.

Nishit Jalan: Just a follow-up. Auto aftermarket 1% YoY for the nine months or you are talking about this quarter?

Harsha Kadam: Nine months.

Nishit Jalan: Considering the fact that we were growing in the first two quarters which means that this quarter you would have seen YoY decline?

Harsha Kadam: Yes.

Nishit Jalan: On the industrial side, can you give some color on which segments have slowed significantly and which segments are fairing reasonably well and also some color on railways please?

Harsha Kadam: On the industrial side, the first segment which began to slow down happen to be the industrial automation. Clearly, it is a segment which rides on the automotive industry and it was very obvious to us that this is the segment which will be affected. Right now I think we are down 24% as you can see. Entire machine tool industry segment has not done at all. So, if you look at the other industrial segment was construction equipment and off-roads. There too the growth has been pretty tepid although the off-road part of it is showing some signs of recovery, basically the tractor segment but the construction equipment still not robust enough; has not posted a robust growth rate. When you look at the raw materials as we call it wherein you have all the steel, cement, energy, power, coal, mining, everything. We do find pretty decent and reasonable growth in the steel sector. Cement did well in the first half and the second half has started to weaken a bit and mining went down a bit but the first half the raw material sector performed extremely well, there were plenty of projects clearly indicating the FDI inflow has weakened, so that is the strong indicator there. Our star performance has been the wind and railways segment for us and wind has performed very well and we have grown almost 15% in the nine months period, and the railways is where we see the biggest growth stories of 35% and we are investing continuously in the railways business and we are riding the wave on railways.

Nishit Jalan: You have taken one aggressive localization plan particularly on the INA side and also on the fact bearing side. Just wanted to understand where are we there and if you can share some numbers as to what was the import mix earlier and what is it today and how are you looking at it from the couple of years perspective?

Satish Patel: We are quite on track as far as localization is concerned. If you remember, we had also said some information in the past that we had a structure of 70:30; so 70% localized and 30% readying or imports and sell business. That 70% has improved to close to 72% already and we have a very focused strategy to bring it to a level of close to 77%, 80% going forward in three years of time. So, as of now we are better and at the level of our strategy of close to 72% and the mix is around that, 72%-28%.

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

Laxminarayanan: A couple of things; given the taxation has actually come down to 25% or so, any of your customers are actually requesting for passing the benefits and how the working capital cycle has actually trended in the last couple of months?

Satish Patel: As far as corporate tax is concerned, you would agree that this is not like indirect tax which has a cascading impact on either side. So, it does not have impact across the supply chain. Corporate tax is a tax benefit to every company. In the supply chain I think it is not so much of a topic of receiving or passing it on because our customers do get the same benefit as we do get. So, if we have to pass on, then effectively we bear, and customers get the additional benefit. So, effectively this is not so much I would say in the currency of discussion. We have not been approached by any of our customers so far and I do not think that is anywhere in our thinking as well. So, as far as corporate tax is concerned, yes, it is a benefit and it should result into our own strategies of

investing, our own strategies of cash flow cycle and our own strategies of doing better than what we were in terms of our overall strategy for the expansions. On the working capital side, yes, because of the impact of the downfall consequently on our inventories, the cycle has been adversely impacted; however, we took concerted efforts particularly in the last quarter, we shut some of our plants particularly two of our automotive plants by a couple of weeks. That brought the inventory to a reasonable level that improved the working capital from where it was about a quarter before. So, we have been able to improve on that; however, there is still a concern because of the volatility on the working capital. But as far as last quarter is concerned, yes, there is some improvement.

Laxminarayanan: What is the royalty number that we should look at an aggregate level given that we have furnished together?

Satish Patel: So, total royalty is close to 1.9% of our consolidated sales, just below 2% and royalty includes royalty for trademark as well, so we have let us say half of that, approximately 1% royalty that we have for trademarks and half of that around 0.9% royalty for technology and knowhow.

Laxminarayanan: In your industrial business, you mentioned that tractors are captured in the industrial thing. Is commercial vehicle also captured in the industrial thing for you, so what is the mix?

Harsha Kadam: In the industrial space, we have the two wheelers and the off-road. These are the two sectors which are in the mobility sector.

Laxminarayanan: How much it would be within industrial?

Harsha Kadam: Within the industrial space if you see two wheelers would be about 25% and the off-road would be another 8%.

Laxminarayanan: This is assuming 100%, in that 100%, 25% and 8%?

Harsha Kadam: That is right.

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

Shyam S Sriram: Sir, in the earlier calls, we have spoken that because of diesel facing out, there would be approximately 3% dip in content, but your today's comments seem to indicate that the gasoline content is actually higher than the diesel content. Have we added any new products if you can throw some light on which new products or segments that are contributing to this increase in content?

Harsha Kadam: Yes, well, as you know, Shyam, we continue to work with customers to identify for new products that we can add to our portfolio. So, in the last quarter, we have been working with our OEM customers to increase our content per vehicle with the gasoline engine coming onboard. So, be

it damping systems or be it the engine systems, work timing, we are working with them to develop even on the clutches, so we have secured some breakthroughs with the OEM manufacturers both in the passenger vehicles and also in the light commercial vehicles as well. So, this is helping us to improve the content per vehicle; however, yes, with the market yet to pick up, the change that is coming to the market with BS IV to BS VI, now how soon can the OEM customers bring these new technologies to the market mean how fast we can grow in that new product space. So, as we stand today, we are geared up, we have plenty of projects with all the large OEMs in India and surely the content per vehicle is going to be more than 4,000 as mentioned earlier.

Shyam S Sriram: These are the new platforms itself or these are from existing platforms transitioning to BS VI?

Harsha Kadam: Some of them are new platforms, some of them are transitioning from BS IV to BS VI.

Shyam S Sriram: One thing on the gross margins, if we see the RM cost to sales has deteriorated on a quarterly basis as well as on YoY basis, this is despite steel prices actually coming off. Is this because exports have grown faster and export would be of slightly lower margin compared to those products that are sold in the domestic market?

Satish Patel: No, that is not in our case actually; exports does not yield a lower margin than domestic business; however, as far as your question is concerned about the raw material consumption, if you look at the total raw material consumption which is sum total cost of materials consumed, purchases of stock-in trade as well as changes in the inventories and calculate the ratio to sales for the nine months of this year, that is 62.8% as against the last year of 63%. So, we are more or less at the level of last year as far as the material consumption is concerned inclusive of all types of materials and this is despite the fact that we have adverse sales mix, we have put in where there is some sectors which are relatively high margin are also performing lower than other sectors and that contributes to adverse mix would relatively actually impact the ratio of material cost negatively, but despite that we have been able to maintain the ratio certainly because of the fact that particularly on the price side, we have not been so much negatively impacted and we have been able to take some measures on the material cost side as well.

Shyam S Sriram: Sir, when you say higher margin segments have deteriorated, that is on the auto side that we are talking about, probably the diesel mix coming off that has impacted the gross margins?

Satish Patel: Not so much because of diesel but within the automotive, we have engine, we have transmission, we have chassis, those segments as such all of them are related to this here.

Shyam S Sriram: We had also spoken about global capacities being relocated to India. Does this mean structurally export mix will increase from Schaeffler India?

Harsha Kadam: I would not look at it that way. We are investing in India to meet the growth. That is there in the Indian market space. And as you all know, India was on a high growth trajectory; however, the hiccups that we are having now is everyone knows that it is just a matter of time. So, our

investment philosophy has been that invest in the local country to leverage the cost as well as be closer to the customers and we are going to live by that; however, if the capacities are available and the demand has now in India it is down, can we offer the free capacities to the outside world? Well, we would not like to stop if any other country wants it. Schaeffler globally has a philosophy that every region has its own manufacturing facility in those regions and they feed into that region. So, the focus is not investing only for exports. It is mainly for the Indian requirement.

Moderator: Thank you. The next question is from the line of Rakhi from Bay Capital Investment. Please go ahead.

Rakhi: I just wanted to know how has market share with the automotive OEMs moved in the last couple of quarters?

Harsha Kadam: It needs to be looked at on the diesel side as well as on the customers side, we need to look at the accounts. There are accounts where we are strongly positioned and they continue to manufacture diesel vehicles and there has been no change, in fact, we are doing pretty good on the market share with the customers who manufacture diesel portfolio. However, where there has been a drastic shift from a diesel to petrol portfolio and there we did lose a few percentage points but as I said in my call earlier that we have brought in a lot of projects and the products into the gasoline portfolio as well and that is going to help us recover going forward. There are some of them who are even looking at the hybridization as an approach. So, we are working in that space as well to make sure that we are ready to play the game be it the diesel, be it the gasoline or be it the hybridization.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Stock Broking. Please go ahead.

Priya Ranjan: Just two questions: One is on the industrial side mix. Can you just throw some light on what was the wind and railways contribution in overall industrial? And second part is more on automotive side for the BS IV and BS VI norms and CAFÉ which you have highlighted, so what kind of opportunity do you see in terms of fix in reduction within the engine side going ahead when we move to BS VI as well as we move to CAFÉ or adhere norms because what we are seeing is the fuel economy of the cars sales going down when we move from BS IV to BS VI?

Harsha Kadam: Let me take the first part of the question. If you were to look at the industrial business, wind comprises roughly about 9% of the total sales what we do and there we have done pretty strong; we have grown almost 14.6% at a nine month period over last year. And if you look at the rail which was the question, yes, that is again around 8% of our total business, in fact, our growth rate in the rail sector has been pretty good, my numbers last year we were at around 4.6% of the total and today we are at 8% which means we have more or less doubled our growth in the rail sector and that sector has been performing pretty well for us, we have done almost 34%, 35% for the nine months period there as well. So, this is to answer the first part of the question. To your second question, yes, you are right on this. As I said earlier that we have host of products which are being jointly developed and worked with our customers and this is purely driven by

the fact that the transition from BS IV to BS VI and the oncoming CAFÉ norms. There is going to be an emphasis on fuel efficiency of the engines. So, the engine component per se, there have been a lot of engineering activities that we are trying to make sure that we add that value to fuel efficiency and CO2 reduction, both. Without going to the details technicality, surely we have state of products that we are working with the large OEMs already for the gasoline engines and even the diesel engines which some of them want to continue to leverage the diesel engine and extend the life cycle on the diesel engine.

Priya Ranjan: So, given your global experience in that segment because most of the Europeans are Euro VI compliant, so what kind of component or content increase do you see in that segment?

Harsha Kadam: As I said earlier, with the move towards the CAFÉ norms that are coming in, obviously this is giving opportunities to actually increase our content per vehicle in terms of value and as I shared already earlier that we will be increasing our content per vehicle very soon from the current levels where we were, they almost going to go up 30%.

Priya Ranjan: Just one thing on industrial aftermarket, you said the overall growth was around 16% if I am not wrong, so what is driving the segment, any specific segment or where it is...?

Harsha Kadam: We have seen good growth in the industrial aftermarket business coming from the raw material sector and there has been a consistent demand improvement there. We have also seen it particularly coming from the steel and the cement sector plus we have also gone aggressively to enlarge our market presence, our marketing initiatives have been very focused now to improve our offerings to the OEM and coupled with our focus on the service part of the business which actually creates pull for the distribution business. So, our strategy has been to not just sell the product but then to also give an aftermarket sales service to the customers and our focus has been since the last three quarters on that area and that is helping us to make our market presence felt more and more.

Priya Ranjan: Just lastly on the wind side. As we understand, entire wind growth was primarily led by the ZF setting up the gas business in India. So, when do you see that facility or that ZF facility might be peaking in terms of revenue or growth?

Harsha Kadam: Yes, you said it right, ZF is leveraging its Indian operations to use it as an export base and they are already doing it, they are adding more and more products which were either to be produced in Europe or being moved to India, and that is helping the demand and our presence with ZF is very strong. Not to mention there is activity in the wind sector with some of the customers like GE and Westhoff also getting pretty aggressive in the marketplace. As you can see, it is clearly visible that the wind manufacturers, they are trying to leverage the Indian operations and use it as an export base and that is how you see the demand for the wind that is going up. However, if you look within the country, the demand for the wind turbines have not gone so much. It is more because of export.

- Moderator:** Thank you. The next question is from the line of (Raj Koradia) from Edelweiss Broking Limited. Please go ahead.
- Shraddha:** This is Shraddha here. Sir, just two follow up from the previous question. As you said there was some market share loss while transitioning from diesel to gasoline in the OE side and you did share how our auto aftermarket performance was. Will it be also possible to share across the segments how the OE performance has been for the nine months in the auto side?
- Satish Patel:** We share by our sectors which are in the engine, transmission, chassis, automotive, and automotive aftermarket similarly in the steel industrial aftermarket. That OE is very difficult to split.
- Shraddha:** On overall auto OE, how has that performed? As you said, aftermarket was up 1%.
- Satish Patel:** So, aftermarket is almost flat; almost 1% growth compared to last year, so the is entirely automotive OE.
- Shraddha:** As you said, engine, transmission and chassis, will it be possible to share the numbers there, how was the performance?
- Satish Patel:** All the sectors have more or less in line as far as the performance is concerned. Engine is slightly higher because of gasoline mix. I do not have the ready figures of engine, transmission, chassis that level but to our knowledge all of them are more or less performing in line except that engine is slightly higher in terms of decline compared to others.
- Shraddha:** Just wanted to understand as earlier participant has asked, overall content as per the earlier understanding was it will be moving down with the mix changing towards gasoline and you did share a number which is almost 40% higher. So, will it be at the overall company level this kind of content increase we could see or it is only for newer platforms where we will be seeing this kind of improvement?
- Harsha Kadam:** It depends ultimately on the OEMs because some of them are coming out with new platforms and some of them are now extending and integrating the new technology to commit with the existing platform. Between the last call I guess and now there have been a lot of efforts to develop new products and bring in new products with a lot of technology, technical support coming in from Germany, we have been able to bring in new products offerings to the customers which is enabling us to rectifying the content per vehicle. That is how the number what I shared with you. So, that is how you see the optimistic jump in the content per vehicle.
- Shraddha:** You also did say that within diesel also there will be improvement in content because of the CAFÉ norms, right, that is also about...?

- Harsha Kadam:** That is right. Very true, because we do have good broad portfolio today in that space. Where it is up to the OEM does, he want to continue to extend the diesel engines or some of them have decided to switch over entirely to gasoline, but we are ready to.
- Shraddha:** So, overall to sum it up, it is almost like 30% increase that we are talking in content per vehicle over the next few years because of the new product portfolio, right?
- Harsha Kadam:** That is right.
- 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 respect to the pricing sir. Sir, the end of last year we did take some price hikes because of the way raw material moving up. Now there is some obviously weakness in raw material cost. So, how are we placed there – are we holding onto some of the price hikes we have taken, this is especially on the industrial side, are we kind of seeing some pressure on us now having to pass those some of these declines?
- Harsha Kadam:** We have not passed on any price reductions. Yes, what you say is true on the softening of the raw material prices, but what we have seen is that has happened in the automotive raw material space. Coming to the bearing as a item which is the raw material that goes into making of a bearing because it is also performance-oriented product, so we are yet to see some softenings although there are some smoke signals but we are yet to see that and hence we have not seen need or necessity to be challenged on that front right now.
- Mukesh Saraf:** This is on industrial you are mentioning sir?
- Harsha Kadam:** I am talking about both because the bearing as such whether it is industrial, or automation is the same.
- Mukesh Saraf:** So, we have not yet seen any pressure there?
- Harsha Kadam:** No.
- Mukesh Saraf:** Secondly, Railways, obviously, you were mentioning very strong growth. Could you give some sense on what is the outlook there, are you seeing some quantum of ordering that is expected to come in for the Class-K or likes? One is on the DFC, second is on the refurbishment of TRBs.
- Harsha Kadam:** If I were to split it up on the pure railways and then the metros, what we are seeing is our close engagement in working with the customers in the metro sector industry right away on the growth of the metro growth story in India, every city as we can see is coming out with metro trains now and here again like the wind, what I see is most of the metro manufacturers are using India as the manufacturing base to export out of India and we are well poised and strongly positioned there to compete and we have secured lot of successes in the metros growth story in India.

Coming to the Railways, yes, we continue to investing in our capacities to see the railways growth story that is happening and we also are looking forward to, we have got approved by the (AAR) American Railroads Association. So, we are really even to start importing to US and when the need arises and we are going to continue to invest in our capacity be it the Class-K or even the Class-A.

Mukesh Saraf: Right now most of our growth on railways is coming from metros?

Harsha Kadam: We have been able to secure a good growth from both these sectors, railways and metros.

Mukesh Saraf: And this will all be TRB sir?

Harsha Kadam: I think some TRBs out there.

Mukesh Saraf: On this content per vehicle increase that you are talking about in OEMs, is it fair to assume that good portion of this will be imported to begin with or do you see starting off with the maximum localization already?

Harsha Kadam: That is the plan. We will start with importing as you need specific volumes to invest in the toolings so that we can get a better return on the investments. So, as the market picks up, surely we are keeping on our radar screen the future investments to start making these products locally in India.

Mukesh Saraf: So, in the next say two, three years, you can start looking at localization but to begin with it would be imported?

Harsha Kadam: Yes.

Moderator: Thank you. The next question is from the line of Sandip Tulsian from JM Financial Limited. Please go ahead.

Sandip Tulsian: Just had a couple of follow-up questions: One was regarding the savings that were likely to accrue post merger activities are completed. We had obtained that number around Rs.40, 50 crores. But there has been a drastic shift in the overall margin profile of the company as a whole. Just want to understand though we look at that Rs.40, 50 crores number from this base or a large part of it has already been reduced as per the other expenditure decline that we see in this year?

Satish Patel: In fact, as far as whatever numbers we announced post-merger resulting out of merger synergies are still valid. Because of the downfall I do not think those numbers are going to change significantly. And I can also confirm that we have realized those opportunities that we have identified and announced, for example, certain bundling opportunities, distribution network and the logistics cost improvements, overhead cost improvements, we are on track as well. So, as far as the opportunities on the market side and on the cost side, we are quite on track and number wise also no significant difference.

Sandip Tulsian: If I may add, last year we started off two big warehouses in India; one in Maharashtra and the other one in Gujarat and this was clearly to manage and reduce our logistics costs which we have achieved. Similarly, we consolidated our sales offices in many of the cities so that we bring in a better synergy within the salespeople sitting in a remote location. So, lot of actions have been done and yes, we have achieved these numbers because it was well planned out and executed.

Sandip Tulsian: Second question that I had was on the overall CAPEX. We did mention about Rs.250-crores odd we have spent in nine months. But this year as a whole as well as next year what kind of number could we see because in the past you have given an aggressive guidance of \$120 million over a three to four year period, so on an annual basis this year and next where that number is.

Harsha Kadam: On an average Schaeffler in India has been investing about Rs.250-300 crores every year and that momentum will continue, we are not going to reduce our investments. Some of the investments which are already ongoing which is the plant in Savli and some of the relocations of the machineries from other sister factories in Europe, the projects are on schedule. So, we are preparing for the future and we definitely want to be ready for the future when the market bounces back. There is no point in waiting and watching and then reacting because the market turnaround can be if not late, the turnover time can be pretty swift. So, that is the reason we will continue our investment plan.

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

Vijay Chaudhury: Thank you for your participation. We will now close the call. If you have any further queries, please drop an e-mail to me, that is vijay.chaudhury@schaeffler.com Thank you and have a good day.

Moderator: Thank you very much. On behalf of Schaeffler India Limited, that concludes the conference. Thank you for joining us. You may now disconnect your lines.