

SCHAEFFLER

“Schaeffler India Limited Q3 CY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Schaeffler India Limited Q3 CY2022 Earnings Conference Call. 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 Ms. Gauri Kanikar from Schaeffler India Limited. Thank you and over to you Madam!

Gauri Kanikar: Thank you. Good day everyone. Thank you for joining Schaeffler India Limited’s Earnings Conference Call for the third quarter and nine months ended September 30, 2022. We have with us today from the management Mr. Harsha Kadam – our Managing Director & Chief Executive Officer, and Mr. Satish Patel – our Director-Finance & Chief Financial Officer. Mr. Kadam will first take us through a short presentation on the results after, which we open the floor for questions. Thank you and over to you Mr. Kadam!

Harsha Kadam: Good evening. This is Harsha Kadam, and I am joined with our CFO.

Satish Patel: Hello good evening, Satish Patel here.

Harsha Kadam: Let me start by briefly taking you through the presentation and I hope all of you are able to see the slides. I am on the first slide where I will be covering the Q3 performance and the nine-month period as well. I move into slide #2 where I would be throwing light on the economy and the industry, and then I would talk about the business highlights for the third quarter and the nine-month period of 2022. I would then move on to cover the financial highlights of the third quarter and the nine-month period of 2022 and then a couple of topics of which I would like to throw some lights as well.

Moving on, I will move to slide #3 where I would like to touch upon the economy and the situation in India and as you can see from the chart on the slide, the GDP growth which posted a very strong number in the second quarter of this calendar year at 13.5% moving into the third quarter with the prolonging wars in Ukraine and the tightening up of the global monetary policy and also imposing of the economic sanctions is certainly weighing down heavily on the economic outlook in India as well. As you all know the World Bank has already downgraded the GDP forecast for the current fiscal year to 6.5% which in the earlier forecast was 7.5%. With both the international headwinds and the domestic headwinds coupled with the growing international inflation as well as the domestic inflation, India is already feeling the impact in some of the sectors and that surely is also reflecting on some of the sectoral performances within Schaeffler as well. One in case is the wind energy sector where a number of our customers have cut down their export orders due to the pressures on the ongoing situation in Europe. Also, the wholesale price index which is at a double digit and twice that of the consumer price index also points that while the credit and liquidity stimulus packages are in place, the retail inflation will continue to be there for some time. With all this the forecast numbers of 6.5% of GDP growth, the index of industrial production which is very subdued in the third quarter provisional number being at 0.7. we have seen some uptick in the automotive production in some of the sectors while some of the

sectors still have not picked up, all these points to a situation that the third quarter we had some subdued demand situation in the country as such.

I will move to the next slide where I would like to give some more details based on each of the sectors and what you see on the slide #4 is the sectoral performance in the industrial space. When you look at the cement production in the country month-over-month the first quarter of the year - cement production was at its highest, but when you look at the third quarter you would see that gradually there is a production drop that has happened in the third quarter. While at a year-to-date level you still find that cement production is 10% better than the same period last year. When you look at coal production it is lot more evident that the first quarter was a very strong performance in coal production averaging about 85 million tons, when you look at Q3 that has already come down to close to 55 million tons averaging in the quarter, but still because of the strong performance in the first quarter at a year-to-date level it is still showing 14% higher production rate of coal in the country. Talk of steel which contributes almost 18% to the industry you would find that the steel production too has remained more or less at the same level as last year in the third quarter. The power generation which is another strong indicator which contributes close to 20% weightage, and you will see that even the power production or electricity production in the country in the third quarter has reduced marginally. With all this yes there were quite a few challenges and headwinds that we have been facing. Let us now look at the auto sector as to how it has performed and for that I move into slide #5.

I am on slide #5 and here again what you see is a little different picture. The overall two and three wheelers had a subdued second quarter performance, but when you look at Q3 the numbers have started to pick up and the two and three-wheeler sector which had negative numbers posted last year you will find has rebounded back with a 4% better performance at a year-to-date level. Look at the passenger vehicles and you would find a strong growth in the third quarter in the passenger vehicle segment and on a year-to-date level posting in year-to-date level of 22% better than the last year's performance. Commercial vehicles started off on a strong trajectory in Q1, but when you come into Q3 the numbers are a little lower than Q1. One of the sectors where there was hope and anticipation that it is going to recover has also started to show some small signs of recovery and that happens to be the tractors, for the first time in many months we are seeing the tractor numbers pick up marginally, but on overall year-to-date level it is still 9% below when compared to the last year.

With this situation clearly when one was to look at the numbers and compare that with the 2019 numbers what it was, and we still see that we are not even there at the 2019 levels. However, some of the sectors as I already said are showing positive signs of recovery. I will move to slide #7 and there I would like to give a summarized picture on what happened in the third quarter of 2022 when it came to Schaeffler India. Despite all the challenges that we had in the market environment and our sustained performance was due to the fact that we have a pretty balanced portfolio mix between the auto and the industrial sectors. Not to mention of course both the sectors have tried and in automotive we have definitely posted much better performance while industrial for the quarter was a little below the same period last year. I will come to that in a while.

With all these challenges we have managed to sustain and hold our financial performance and have been able to deliver the margins as you can see on the boxes on the right side. We continue to keep our focus in engaging with our customers and as you know in every earnings call, I do share the new business wins and the new initiatives that we take up in actively engaging with our customers and this quarter as well we were able to launch the REPXPERT mobile technical training van in the automotive aftermarket space. I will cover that in my succeeding slide. One other highlight is the corporate governance scorecard where we went through an evaluation process, and we continue to remain in the leadership position which I will throw light further down in my slides.

We do believe that the headwinds what we are facing on the global market and the outlook as well as the inflation would continue to dog us for some more quarters to come. However, with all these challenges we have been able to post a reasonably good performance. In terms of the sales growth as you can see, we were able to post 18.1% higher sales revenue over the same quarter last year, but over the preceding quarter as things have got more challenging, we were able to just post 0.4% clocking in INR 1,756 crores for the quarter this year. This resulted in an EBIT margin of 15.7% for the quarter which definitely as you can see there is better than the same 14.9% that was there in the same quarter last year bringing in an additional INR 275.6 crore to the bottom-line. The profit after tax margins stood at 12.3% compared to the 11.5% of the same quarter last year and bringing in INR 215 crores to the bottom-line. We did face some challenges on the free cash flow within the quarter and we were 33.5% lower when compared to the last year same quarter period. This is clearly attributable to the cash flow issues that we are facing as well as some of the inventories that are piled up as well the working capital as well going up.

I move to the next slide, slide #8. I would like to share with you some of the new business wins that we have secured within the quarter. In the automotive technologies space, we were able to secure some business wins in the commercial vehicle sector for the double clutch systems, not to mention of course some of the needle roller bearings and the ball bearings in the passenger vehicle segment as well. Talk of the automotive aftermarket business, while we had no new product launches but however of our efforts to consolidate our growth trajectory in the new products that we have launched in the previous earlier quarters continues and we have been able to secure volume wins for the newly launched products as well as the point that I shared we have started to engage with the front-end mechanics and the garages to ensure that we create the pull for our products from the market side through the REPXPERT effort that we are putting through. The traded goods that we have launched in terms of shock absorbers, lubricants, and wipers we continue to expand our market presence as well as the reach and the consolidation process continues to go on. On the industrial side as well, we have secured some key businesses for the cylindrical rollers, the spherical rollers and the taper rollers in our off-road segments not to mention some of the large size bearing in the energy segments that we have bagged some good orders as well as the linear guides, the quick center that we have put up has managed to rope in big orders from our industrial automation machine tool industry customers and which is further augmenting the demand situation which we see weakening in some of the other sectors.

Having said that I move to the next slide to throw some light on the REXPERT automotive aftermarket mobile technical training van. What you see here is the van, which is self-contained with all the training modules, hands-on training that is given by our expert engineers in the field and this was officially launched on September 7, 2022. The plan is to cover roughly 9,000 kilometers across the country and addressing 1,100 garages and for 81 days this is going to be on the road. We are going to run our training sessions for the repair garages, for the fleet workshops, for even the multi-brand garages and the retail markets as such, and in total we would be covering about 36 cities in all to ensure that we extend the reach further into the marketplace.

With this I move to slide #10 wherein I would start to talk about the financial highlights. I am on slide #11 now and looking at the revenue from operations we have sustained our performance in terms of sales revenue in the third quarter in spite of the challenges that we are facing both on the domestic front and the global market situation as such. So, as you can see with INR 1,756 crores that we have posted in the quarter which is a clear 18.1% growth over the same period last year; however, as I have earlier said 0.4% growth over the preceding quarter. Now if I were to compare the revenue bridge as to how did we move from last year to this year a lot of contribution has come in terms of the volume growth from the auto tech space as you can see INR 157 crores for the quarter coming in from the auto tech space and the rest coming in a large part of it coming in from the export businesses which is another INR 107 crores another INR 5.5 crores coming in the automotive aftermarket space. Industrial was the only sector where we had a dip in the sales revenue for the quarter coming on the back of some of the weak demand in the wind sector and some of the steels raw material sector.

Well, if I were to compare the sectoral performance over a nine-month period I refer to the chart on the right-hand upper corner there. When you look at the year-to-date period you would find the automotive technologies in spite of the weakening growth in the first quarter and now a recovery that we see still able to post 23.9% better performance for the same period last year. The automotive aftermarket grew by 21.4% and industrial with a strong first quarter start but a weak third quarter we still are at 17% better performance than the same period last year. Exports on the other hand which is clearly a focused strategic direction that we have taken as you can see, we sustained a growth of 62% over a nine-month period as well.

I will talk about the balance portfolio of the business that we are able to drive in the marketplace and as you can see with the changes that you are seeing in the quarter our automotive technologies contributes 41% to the sales revenue while the industry will contribute 34% and our exports we have been able to sustain this in the last three quarters at 15%-16% level and the automotive aftermarket takes the share of 9% of the total sales revenue.

With this I move to the next slide which is slide #12 and here I would like to touch upon the earnings quality for the quarter and as you can see as I said earlier in the third quarter, we were able to bring in INR 275.6 million as the EBIT value at a margin of 15.7% and this was clearly a 24.4% better performance year-on-year. I think even after nine-month period as you can see the EBIT margin for 2022 still stands at 16% compared to 13.7% over the same period last year. If I were to look at the EBIT bridge as to where do these margins come from - straight volume

increase gross margin improved - INR 925 million or INR 92.5 crores and we did have some smaller improvements in terms of employee cost, in terms of other incomes and taking the total to INR 275.6 crores for the quarter this year. This resulted in a profit after tax, coming in to Q3 as you can see at a 12.3% profit of the tax margin which is a clear 26.1% better performance at a year-to-date level and a year-on-year growth performance. If one were to look at the nine-month period performance profit after tax stood at 12.8% and the same period last year was 10.9%.

I move to the next slide which is slide #13 which throws some light on the working capital development and the capex. So, with the subdued demand that we saw we did definitely see some increase in inventory levels hence you see some marginal increase in the inventories in the third quarter compared to the preceding quarter; however, at a nine-month period as you can see also the working capital as a percentage to sales stood at 19.9%. Same period last year was 18%. One point which I would like to tell here is the volume growth obviously needs to be serviced as well. So, some part of the inventory increases, and the working capital increases was already factored in to ensure that we sustain the service levels to our customers. When we look at the capex spend in the third quarter close to INR 100 crores was spent in the quarter alone and as you can see our clear focused consistent investment effort that we have been doing every quarter continues and as a percentage to sales over a nine-month period this year we are at about 6.2% and if one were to compare to last year which was around 3.5%. I did mention about free cash flow in my earlier slide that this could have been a better picture here. Well, we are making efforts to ensure that we recover the lost ground in the third quarter of this year in this coming quarter and thereby getting in line with the targets that we have set on the free cash flow as well.

I move to the next slide, slide #14 which is throwing some light on the key indicators and the key figures. I did already talk about 18.1% growth in sales revenue in the quarter and if one were to look at a nine-month period clearly a 25.6% growth over the same period last year and this resulting in an EBITDA margin of 19% when compared to the 17.3% of last year. Rightfully the EBIT margin closing in at 16% at a nine-month period compared to the 13.6% and this resulting in a profit after tax margin of 12.8% compared to 10.9% over the nine-month period and as I said earlier capex spend as you can see for the nine-month period has been INR 316 crores which compared to last year the same period stood at INR 136 crores.

With this I move to the next slide, and I would like to touch upon a couple of highlight points. I am on slide #16, we went through an evaluation by the Institutional Investor Advisory Services. We had gone through this process way back in 2019 and clearly given that India is a member of the G20 Forum this evaluation framework is built around the G20 and the OECD Principles of Corporate Governance, which is a globally accepted benchmark practice for corporate governance and we went through this process of evaluation by IiAS, but I am very happy to share that we have sustained if not better or marginally better our leadership position by scoring 76% percentage point the same number last year last time we went through the process we were at 75% and this is a clear commitment from our side that we will continue as an organization and as a company emphasizing that we are very committed to high standards of corporate governance and we will continue to keep our focus on corporate governance.

Having said that I move to the last slide which is a summary slide and here what we see is revenue performances in spite of the sluggish macroeconomic demand situation as well as the local inflationary domestic situation. We have sustained our performance and we will continue to make efforts to better this in this quarter. Our balanced mix obviously and the countermeasures which we have continued to sustain in the last quarter have enabled us to deliver the margins in spite of the headwinds that we have faced. The capex which is on track as per our commitment and the strategy, we continue to ensure that we consistently deploy capital judiciously. While we will remain cautiously optimistic in spite of the weakening global demand as well as a lot of unpredictability and uncertainty. With that I come to the end of my presentation. I open the floor for question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Good evening and thank you for the opportunity. My first question is on the revenues and you did mention that the industrial segment revenue is kind of weak because of the wind energy segment, but I am just trying to get some sense on how do you see the future because wind probably is not that large in the overall scheme of things for us do you see some other segments offsetting that in the future especially with the private capex in the country going up with the PLI schemes, etc., could you give some sense on how this industrial segment for us can pan out?

Harsha Kadam: Yes, as you said it right, we have seen the export of wind equipments from the country has become subdued fundamentally on the back of the sanctions that are getting imposed in the Europe and the rest of the world. So having said that what we have seen is all the wind equipment manufacturers who use India as a manufacturing base and export out of India we have seen the demand going down as such, now is this going to remain I believe yes considering the fact that with the sanctions going to be there until they find a different way to channelize the products that have to go to those countries I believe that yes we are going to face headwinds in this sector for some more time to come. However, we do also see that the domestic demand for wind still continues to be there albeit it is not at the same high levels that used to be there in the export market, but we have not seen a drop in demand for the wind equipments nor the products that go into the domestic wind equipment supply so we believe to summarize that yes, this headwind would appear to remain for some more time.

Mukesh Saraf: In relation to that, given that export is kind of weak because of the global macro situation we have still seen exports for us the direct exports for us still holding on strongly at 60% growth Y-o-Y is there a reading here for us that this exports here might not sustain at this level in terms of growth because of this global situation already impacted the wind segment?

Harsha Kadam: All I can say at this point in time is third quarter our own exports did pretty well, and we see the order books even in this quarter pretty good, so we see no signs of concern for this quarter as well. As you know that this export is being done clearly with a very clear strategy and the investments accordingly in line with that plus the relocation of the productions happening, all of

this put together at least for this quarter as well we do see definitely see no cause for worries in our own exports.

Satish Patel: Just one more point regards the exports is the 1.3% growth that Harsha mentioned in the quarter for exports and others. If you look into the real export growth because this total 1.3% includes other revenue as well, the other revenue has declined by about 15% which is small in proportion. The exports actually grew by over 7% quarter-on-quarter. So that in a way export there is a growth, yes, the revenue decline is because of the timing difference of spread disposals and such things, but when we talk about exports there was really a growth of about 7% for the quarter.

Mukesh Saraf: Just last one if I may just squeeze in on the margins we are seeing a couple of things playing out here with OEM revenues going up, aftermarket kind of flattening out and obviously raw material cost steel, etc., coming off, so how do we kind of look at margins with these things playing out where OE mix might actually impact margins whereas raw material might actually benefit margins, do you think directionally there is a kind of flattening out in terms of the improvement in margins from here?

Satish Patel: Yes, as far as margins are concerned for the quarter margin is reflection of the mix as well as the cost level sustenance of the previous quarter because the steel price actually did not increase beyond what already increased in the preceding quarter. In terms of how the margins would look forward, in terms of sustainability certainly would depend upon the mix going forward for both the businesses - automotive and industrial as well as aftermarket and the exports. We are quite confident that the cost level in terms of the level of countermeasures and the cost discipline that we have brought in that would continue; however, we still keep our fingers crossed with regard to the steel price and the inflation that might cause some impact going forward. As of now we do not see because the current quarter there is a little sort of a reduction in the increase of the steel price and inflationary impact not significantly impacting the overall performance so.

Mukesh Saraf: Great thank you so much I will get back in the queue.

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

Rishi Vora: Thank you Sir for taking my question. Just a followup on exports you did highlight that there is some relocation of export that is happening maybe from abroad to India so can you just elaborate on that on what is happening is parent shifting increment, is Schaeffler India winning incremental orders is also parent looking to shift more capacities in India over the medium-term?

Harsha Kadam: Yes, so as regards exports we had also mentioned in the previous call last quarter that there have been certain relocation programs and those are progressing as per the plan, so those relocations have been in progress and that is one of the contributors of actually increase in the content of exports in the total pile. With regard to the overall demand situation, yes there would be certain impact coming from the global scenario, but that is unlikely to impact the level of performance that we have achieved in exports because large amount of that actually comes from the structural

aspects of relocations. Coming to your specific question about relocation, yes, those are on track, and we are expecting in fact those to progress also as per the plan. We have also earmarked specific capex for exports for those relocation projects as well as further capacity expansion in CRBs and similar other type of products and the capex is also on track. So, we are expecting capacity also coming out of the plans for exports.

Rishi Vora: Thank you for that and secondly on RM so from fourth quarter from this current quarter do we expect RM basket to cool off or you expect that it will still remain at a flattish kind of a level and on top of that additional question is how was our accounting like what is your agreement with OEMs in terms of RM pass through so do you make a fixed percentage point margins on your product or you make a fixed gross profit for bearing supplied to your end consumer at least on the OEM front so any color on that would be helpful?

Satish Patel: So, I think your question is in two parts one is the impact of the steel price in RM and how long this would be there so far how much and how long, the second part of the question was related to how we recover from the market. As regards the impact in RM so far there have been sort of a quite significant impact largely came last year already and that impact continues whatever happened last year continued this year. Additionally, there were further steel price increases in this year. However, in this quarter there have not been any further increase so that is good news as far as the quarter is concerned that there has not been an increase and for at least another quarter we are not expecting increase though it depends on several external aspects. Coming to the recovery it would be very difficult to provide you a detail how exactly we recover but in general we can comment that we do have a strong recovery mechanism both in terms of indexation as well as negotiation and we have been able to actually so far persuade our customers in the market to accept and pass on the steel price or the significant input cost increase. This does happen because the input cost increase is significant, quite material it is not in the normal range, and this has been the situation across the industry in fact our customers have also been able to recover from the market as you would have seen the prices of the end products - automotive vehicles have also been increased in the range 2% to 4%. And one of the major elements for this is actually the commodity price increase. So, it is across and yes, we in the supply chain have been able to in a way recover quite a significant portion of that.

Rishi Vora: Just one clarity on the RM front steel prices have corrected over the last two quarters and still in fourth quarter you are saying that RM basket will kind of remain flattish is it that we have some inventory still there in the system and that is why we expect RM basket to remain flattish or there are some other factors which is resulting in flattish RM basket?

Satish Patel: No, the inventory turnover is quite fast for that category of raw material, so it is less than a month actually whatever happens in terms of the price does impact whichever direction it moves does directly impact the quarter.

Harsha Kadam: I just want to clarify Rishi here that it is not that the steel prices have reduced. It is just that the rate of steel price increase, which was there in the earlier quarters has reduced, it used to be in double digit increases now it has come down to a single digit increase and that is the difference.

- Rishi Vora:** Understood thank you.
- Moderator:** Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.
- Sonal Gupta:** Hi! Good evening and thanks for taking my question. Sir, just on the export side wanted to understand in terms of your contracts are these euro denominated, do we have any FX related currency risk?
- Satish Patel:** Large chunk of our exports happen in Euro currency and there are also two categories or two types of transactions one is directly in Euro currency other is in INR currency because we do have imports as well. Significant imports in Europe and on the imports also we have imports both in foreign currency which is in Euro as well as in Indian currency which is INR. So, because of this sort of a currency impact, because of the rupee currency and also because of the natural hedge the volatility which is there in the currency is more or less neutralized, the impact of that is neutralized, but yes, we do have higher chunk of our transactions in Euro than any other currency.
- Sonal Gupta:** On the RM side for these exports also do we have a pass through?
- Satish Patel:** Yes, RM is a global impact be it imports or exports or domestic consumption or domestic purchases is all around and all whatever is the impact we have been able to do that.
- Harsha Kadam:** I think we do not directly pay here; we can directly sell...
- Satish Patel:** Yes, our exports are to our group companies, our group companies in turn they sell in the market; however, the steel price impact globally is factored in the cost, yes, that is what the clarification that we used to provide.
- Sonal Gupta:** Just lastly given that we have seen a significant bump up in capex as per your guidance, this year we are clearly seeing a significant increase in keeping; do we see that we should start seeing a big lift in revenues next year from the investments we are undertaking?
- Satish Patel:** Yes, large chunk of capacity and capacity would mean a higher generation of output and thereby revenue. That goes obvious without saying and we have been on track so far on the capex. We also announced that we would be spending over INR 400 crores this year and we are very much on track.
- Sonal Gupta:** No what I was trying to understand is that the installation time and the ramp up time is like 12 to 18 months or is it longer than that, that is what I was trying to understand?
- Harsha Kadam:** Yes, you have said it right it is about 12 to 18 months and the projects which we are already on track we anticipate next year one of the projects to culminate into series productions to start so the other one is at a little start stage right now, so I guess yes 18 months is the best estimation.

- Sonal Gupta:** Got it Sir, great. Thank you so much for taking my question.
- Moderator:** Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.
- Sandeep Tulsian:** A very good evening. First question is pertaining to the Q-o-Q growth that we have reported the numbers are largely flat while given the steel price increase that we would have seen as per the standard practice we would have passed it through where it is company indicated prices, so if you could break down what kind of price hikes ruled out over the last two quarters and if we assume that there would have been a sequential volume decline sequentially so is that a correct assumption if you could share some more insights on that?
- Harsha Kadam:** If you can clarify the last part of the question sorry, we could not get that.
- Sandeep Tulsian:** Yes, so basically if we look at the sequential growth sales has remained flat even if you assume a nominal price increase company would have taken in low single digits it implies there was a volume decline overall on a sequential basis so if you could highlight the key reason for same?
- Satish Patel:** Yes, so to answer your question when you compare Q3 vis-à-vis Q2 both the quarters have recovery. So therefore, the growth whatever minimal that you see is actually the volume growth as well because both the quarters have the impact of the recovery. So, because of recovery taking out you would not find decline in volume because you would take out from both the quarter and then there would still be increase in the performance in the revenue which would be because of the volume.
- Harsha Kadam:** Our recovery effort continues whatever is the case but what we see is the big impact is due to the slowdown in some of the sectors, wind and the raw materials we have seen a bit of slowdown predominantly on the industrial side even tractors we saw some drop, so these have contributed to the topline being flat when compared to the preceding quarter but the steel price whatever it is those recovery efforts parallelly are going on.
- Sandeep Tulsian:** Second question is pertaining to the auto aftermarket if you look at the quarterly run rate over past five quarters it has largely been around at INR 150 crores per quarter revenue that we are doing and in this meanwhile over the past five quarters I am sure there would have been significant number of price increases that have gone by plus we have expanded our product basket including lubricants and other products as well which we have been highlighting every quarter, so why this segment is stagnating at this current level, how should we look at other growth in this segment, where can it increase to, what are the key reasons why we are not able to expand, any dealer expansion issues we are facing if you could give some perspective on automotive aftermarket?
- Harsha Kadam:** Well first let me make two points here the automotive aftermarket has a business cycle of its own that is one. So, you would normally see when you look at the trend quarter-on-quarter you will find the last quarter of the year being pretty strong in terms of demand as well that is one. The

second point I wanted to make was more to clarify that the automotive aftermarket topline has not been flat if you were to look at the second quarter performance over the first quarter of this year you would have found 20% growth we have demonstrated. So now the third quarter over the second quarter is just about a percentage point more and we anticipate that the last quarter of this year definitely should be much stronger as such.

Sandeep Tulsian: But I was more overlooking at the trend over past five quarters it is averaged at 150 Crores so kind of it has not grown on a year-on-year basis as well so that is what the point, I am asking that question?

Harsha Kadam: Well, the numbers I am looking at is last year the average used to be about INR 125 crores a quarter if you look at it now the average is a little better than that.

Sandeep Tulsian: Fair enough alright, it is kind of lumpy and there might be some fluctuations on quarterly basis. Last question if I can squeeze in is on the content per vehicle which we have been highlighting that content per vehicle from €40 per vehicle to €80 that remains where we are in that cycle and in previous call you highlighted that the companies are taking some particular orders at subsystem level from component level we are trying to move up in the value chain again some examples where we have been successfully been able to continue, what to do to our overall content per vehicle target, how should we look at this entire transition and that is my last question.

Harsha Kadam: Yes, as I said earlier the content of vehicle, we have a clear plan to grow the content per vehicle and accordingly there are products which are moving into more into the subsystem level and that is happening. Some of the new business wins in terms of our transmission business which you see recently that we have secured on the dual clutch transmissions, you will find exactly moving in that direction to improve the content per vehicle offering. What I would like to also point out is these could vary - the content per vehicle varies between the segments within the automotive space the light commercial vehicles, the heavy commercial vehicles have different content per vehicle and depending on the products we have and the offerings and we have the new business wins that we make clearly determines what is the content per vehicle so we have varying content on the vehicle growth happening in the different segments so to say. Tractors we were having the dual clutch was a growing market and if one were to look at Q3, the demand for dual clutch actually went down because the specific models were not being produced in that quarter so that had an adverse impact on the content per vehicle in the tractor segment whereas in the others we were in a much favorable situation where we have grown a bit so you have a varying mix coming out when we look at the content per vehicle.

Sandeep Tulsian: Understood thank you so much for taking the questions.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Thank you for taking my question. I had one question which relates to the exports business for the company when I read the call transcripts and management communication before July 2020 what was explained was Schaeffler globally has a philosophy that every region has its own manufacturing facilities for those regions, and it was expected that exports out of India will remain at 8% to 10% of company sales for the India entity. So, I just wanted to understand what has structurally changed over the last two years like this kind of seems to not hold anymore where exports suddenly have become a big opportunity for us and even the parents seem more okay with us exporting more out of India for other geographies versus localizing the money merchant? Thank you.

Satish Patel: Yes, your point is very valid a couple of years back we would have said that exports would be in the range of 10% and Schaeffler does have strategy and philosophy of producing in the quarter for the quarter and that remains unchanged even now also that strategy philosophy remains unchanged we do have sort of a production in the region and this is obviously because of the content of their steel in the raw material which is A category cause and that remains above 50% and the price level of that is not significantly different across the globe. However, during those calls in those years, we have also mentioned that as a strategy Schaeffler also focuses on products for the country where there is a critical mass and where the competency exists. And carrying that story further we have in subsequent calls also clarified that as far as India is concerned there are certain products where India has a critical mass, India can serve the other global Schaeffler countries and also the competence exists in India - cylindrical roller bearings and certain other type of bearings was a very good example. In addition to that when Schaeffler did the global sort of a review of the strategy it was actually found appropriate that in other countries this type of products are in not so much of critical mass and requires to be relocated to India and the second was in addition to the competencies also the cost for certain products we have developed the cost competence in addition to the engineering competence and that actually makes also relocations quite feasible so that is the main focus. In addition to that, yes, one more point is that some of the markets which were not so much accessible in the past have actually opened up more than what were there in the past and one good example is the Asia Pacific market. And Asia Pacific now we have quite a high ratio of exports inclusive of all the South Asian countries, Southeast Asian countries and also in China so that has also opened up some more opportunities unlike in the past.

Manjeet Buaria: Thank you. I have one followup question. If we take this total pie of products where India stands out either for cost advantage or critical mass advantage or for some technology advantage everything put together is globally the 500 for Schaeffler are parent what percent of that are we supplying right now so I am just trying to understand our penetration for these products where we have some edge in the global scheme of things?

Satish Patel: Yes, I understood your question, but I do not have that sort of number ready but yes where we have the competence actually the contribution of our exports is significantly higher. So, it is significantly higher so I would say it can range in 30%-40% of the global requirements at least 20% of the global requirements but I would not be able to give the exact number for those

products. I do not have that data in front of me but yes wherever CRBs for example the contribution of Schaeffler India is significantly higher.

Manjeet Buaria: One followup final question if you take really long-term perspective a decade two decades can you structurally go up to like 60%-70% of global contribution for parent or are there certain strategic reasons for which the parent would not want their share to be so high? Thank you that was the last question.

Satish Patel: No there is no limit to that, as long as we are able to sort of sustain that level of competence both cost, engineering, and technology and able to serve I think there is no limit; however, how much would that be that would be very difficult to answer.

Manjeet Buaria: Thank you.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Ms. Gauri Kanikar for closing comments.

Gauri Kanikar: Thank you everyone. Thank you for joining us today. If you have any further queries, please do reach out to me on gauri.kanikar@schaeffler.com. Thank you and have a good day.

Harsha Kadam: Thank you all.

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

(This document has been edited for improving readability)

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