"Schaeffler India Limited Quarter 4 and Full Year Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Schaeffler India Limited results conference call for Quarter 4 and full year results for the period ended December 31st, 2020. 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 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 results call for Schaeffler India. Today we have with us Mr. Kadam, our CEO for Schaeffler India Limited and Mr. Satish Patel, our Director Finance and CFO, Schaeffler India. I now hand over the call to Mr. Kadam who will take you through a short presentation on our results. Over to you Mr. Kadam.

Harsha Kadam: Thank you Vijay and good afternoon and a very warm welcome to all of you in the call. I would like to take you through the presentation of Quarter 4 performance. I am right now on slide number two which is talking about the economy and the market. I would like to cover three broad areas. First would be the economy and the market. Second would be the key highlights. Third would be of Quarter 4 performance highlights. On the economy and the market as you all know the Indian economy went through a turbulent time due to the pandemic. And the GDP has been predicted that the GDP would contract to about 8.3% in this current year 2020. While it is on a recovery path with the un-lockdown the last two quarters have shown a resurgence in some of the sectors of industry thereby prompting to a positive upturn in the GDP growth. While this was happening one of the challenges obviously that was seen was on the inflation rate which was an irritant, which was well above the 5-percentage point mark consistently as you can see in the graph below month after month. And it was clearly evident that actions were needed to this effect. Looking at the index of industrial production too while it went down into the negative region, well during the lockdown period, but post the un-lockdown you have seen that recovery happening there as well. Obviously, this was coming on the back of some of the automotive and the infrastructure industries which received the fillip from the policies and the initiatives taken by the government of India to create a stimulus and propel the economy back on track. Also, you would see that the pent up demand by the consumers which was there was also beginning to play its role in enabling some recovery in the Quarter 3 and the Quarter 4 of the economy.

Below are the core industries growth and here too you find a similar trend that after a period of almost six months it began to bounce back and towards the last quarter the core industry growth rates began to show almost at breakeven point. While all this was going on the government did undertake a lot of initiatives, Atmanirbhar Bharat obviously being one of the notable ones, the new education policy that was rolled out, the farmer's bill which is still under dispute and of course more rigor in the Make In India campaign. All this kind of came together to enable many sectors in the industry to kind of start to get back on track. And not to be left behind the recent Union Budget announcements on the vehicle scrappage policy only goes to show that the right buttons are being pressed to ensure that the demand creation and growth in the economy happens. And look forward to now 2021 being a much better year in terms of the GDP growth rate.

I move to the next slide wherein I would like touch and talk upon some of the sectors, how did they perform last year and the interesting thing here is, let me start with the cement production riding on the back of the push and the drive which the government is doing on the infrastructure industry with the number of kilometers of road laying going up to close to 70 kilometers per day of road laying. This sector has started to now see investments come in as well and particularly the point to note here is when you look at the last three months, the quarter of Q4 and compare that with the previous quarter it is still below 5% but however the trajectory is in the right direction. And at an annualized level the cement production in the country was down 15%. But when you look at the steel it has a much better story to tell in the last quarter particularly of Q4 of 2020, it outgrew by 4% when compared to Q4 of 2019, clearly indicating that the infrastructure industry is driving as well as the automotive industry which is back on track began to drive the steel production in the country back on track. One other sector which is very relevant as the coal production in the country and obviously that has been on a consistent rise since September last year and effectively when you see this growth too has been phenomenal at an annualized level, the core production did grow 1% over last year 2019. The energy generation, electricity generation was another one wherein we saw some positive story scripted in the last quarter with 8.3% better energy production in the country in the last quarter when compared to Q4 of 2019. Although at an annualized level, we are still down minus 1.6%. However, the indicators are all there that this is moving in the right direction too.

What is interesting is what you see coming on the next slide and that's the phenomenal growth story scripted by the auto sector with a very quick recovery.

Let me start by first commenting on the two and three wheeler sector. What you see on this slide here is the dip during the lockdowns of April, May, June and then the sector started to come back on track. However, this was the sector which was the hardest hit. Around April-May the sector was down close to 60% when compared to last year and the recovery was still far away so at an annualized level it is still at 25% below 2019. However, when you compare the last quarter of 2020 the performance has definitely been better than the Q4 2019 performance with about 6% better performance. Passenger vehicles has been one of the stellar performers in the last quarter of last year. And as you can see here at an annualized level while it was 24% down compared to 2019, the October, November, December quarter posted almost 17.7% higher production of the passenger vehicles in the country compared to Q4 2019, clearly pointing to an upswing here. Look at the tractors, tractor has been consistently going up and as we can see here at a manualized level probably the only sector which has shown the strongest growth over the previous year which is 10% more than the 2019 story. And the last quarter performance also has been very high compared to the previous year’s last quarter at almost close to 62%.

Having said that, before getting into the key highlights let me talk a little about our effort against the COVID pandemic and how we sailed through the pandemic in Schaeffler amongst our plants and offices. As you all know these were testing and trying times. So with the situation that were in like any other company we got into the act of putting in considerable measures in terms of bringing awareness, in terms of trainings, in terms of safety protocols, in terms of adopting to work from home practices, in terms of cluster deployments, even in terms of putting in processes to enable contact tracing of employees, also to ensure that we interact with our customers and our neighboring companies to know what are the best practices and who is practicing better than us and we were able to benchmark with them and implement robust safety protocols within our plants and offices. I am happy to say that at the end of 2020, if I were to just for the sake of comparison, look at the number of infected COVID confirmed cases within Schaeffler India versus the national average on any parameter, be it the number of confirmed cases or be it in the recovery rate or in the fatality rate, our Schaeffler India's performance has been much-much better than the national average. And I take pride in saying that it is entirely due to the splendid teamwork put in by the Schaeffler team here. Well as I said, the hallmark of this entire thing was the tremendous teamwork, which was demonstrated and also at the same time, the market recovering back, this was a parameter that was tested and we came out with flying colors.

Moving on I would like touch upon “We pioneer motion” campaign. Now what is this? I am sure in the last two weeks you must have been seeing a lot of print media advertisements pertaining to Schaeffler with this campaign, a new campaign which we call “We pioneer motion”. Now Schaeffler is a strong company. We prove this every day, wherever we operate in whichever parts of the world. We show that we are innovative and we can develop technologies that are in demand all over the world. We also offer products and services with which we inspire our customers today and all the contents in due course. Furthermore, we also have moved forward and brought out our own roadmap 2025, which is our strategy and exactly in line with that our corporate purpose and our claim and our vision being that we are an automotive and an industrial supplier of choice that leads through innovation, agility, and efficiency. Now the vision follows a corporate purpose. Why does Schaeffler exist? It exists because “We pioneer motion” to advance how the world moves. That is our purpose. It is in our DNA. That is what makes us special and that is the reason why we have also adopted or claim we call “We pioneer motion”. And it goes without saying that for generations we have been moving the world with our innovative components systems and service. But we just cannot leave that at status quo. So we are working every day to make motion even better. And having stood for innovation spirit and have exceptional ideas and thinking outside the box, we always love to go one step further. So the color we represent is green. We are green and green makes the difference. In order to convey this message so we have developed this image campaign which will significantly increase our brand awareness globally and even in India and strengthen and expand our position in the markets that we are active. Now this we believe will make us stronger going forward. So what would that bring Schaeffler? It would obviously improve the image of Schaeffler in a sustainable manner, strengthen the Schaeffler brand. We believe that this campaign promotes and supports the implementation of our strategy as well. It also engages the business partners and employees in Schaeffler group, and also enhance employer attractiveness and particularly in times of transformation which we as Schaeffler are going through in India as well.

Added to this, I would like to talk about some of the new products and wins that we have encountered in the last quarter. One of them is what you see on the left as the industrial product. During the lockdown period we were establishing the manufacturing setup called the Quick Center to enable us to offer the linear guides which is a very prestigious and a valuable product required for the machine tool industry. Earlier to this, the product used to be imported from our plants in Germany and with long lead times and long waiting periods. Now with the center that we have set up in our plant in Baroda, we will be able to offer these products to our customers in India in the shortest possible time and also with customized sizes required by the customer. Having said this, incidentally we officially launched this in September last year and within a month or so we began to see the order books opening up and I must say that we have received tremendous response for this product in the Indian market.

The other success story which I would like to talk about is on the automotive side of the business. We have been successful in taking some of our prestigious projects that we were working with our esteemed customers to a closure and one of the product happens to be the DCT damper which had a lot of design contents, we customized in specific of Schaeffler design which we are able to offer with value to the customers in the Indian market. Also, on the engine and transmission system there have been the chain and belt transmission systems as well as some clutch release systems that we have been specifically designing and working with our customers to address the BS6 requirement which we have been able to start business and supply as well. Also in my last investor call I did share that we have launched a Schaeffler TruPower as a brand in our automotive aftermarket range of products and the first product that was rolled out under the Schaeffler TruPower was the lubricants engine oils. And I must say that in the last quarter of 2020 we have received a tremendous response to this range of products from the market and with very strong order books that have started to come in.

With all this, I would like to now talk on the next slide a little bit on the highlights of what were the good things that we did and what happened. Obviously one of the key positive highlights has been the way we managed the COVID situation with an all-round focus on health and safety of our employees, be it in our plants, be it in the offices or be it in the remote locations that our employees were located. The second was, since the economy went through a lockdown it clearly gave us an opportunity to sit down and identify countermeasures which would address how do we play the game once the economy starts to open up and come back on track. And I must say this has been an immense satisfaction because the countermeasures that we had identified be it on the generation of sales revenue, be it on the strict cost disciplines and any other kind of overhead cost cuttings or be it on taking the projects that were in the pipeline to a closure, all three have enabled us to put up a very strong financial performance in the last quarter. Also, we did see a good tail wind coming from the market with the pent-up demand that was there which also enabled us to accelerate faster and capitalize on the demand that was coming in the marketplace. Of course stellar performance, we have seen from the automotive division coming on the backdrop of a very strong demand which I will share with you in my next slides.

Of course, we did face some headwinds during the last quarter of last year. One of them happened to be the inflation and the increase in the steel prices that we began to face, in addition to the intermittent supply breaks that we saw as a result of which some concerns were there and still continue to be a concern going into 2021. One other headwind that we faced was on the delay in consignments coming from overseas mainly due to rigid safety protocols in terms of sanitization, due to the pandemic of the shipping lanes as well as handling of consignments at ports caused a delay of close to three weeks to four weeks and this put a strain on our operations as such.

Having said that what you see on the right side of the slide is the performance how did we end up Q4 of last year. As you can see, we posted 1273.3 crores of sales growth in Q4. That happens to be a 13.7% better performance than the immediate preceding quarter Q3 of 2020 and a 22.9% better sales performance compared to Q4 of 2019. Coming to the financials the EBIT, we were able to deliver Rs. 180.6 crores in terms of EBIT and that was 27.5% better than the preceding quarter Q3 and 61.8% better than Q4 of 2019. The profit after tax, again a sound performance there, 141.7 crores delivered and that happens to be 24.8% better than Q3 and 67.5% better than Q4 of 2019. One of the hallmark areas was performance on the free cash flow. We were able to generate a strong cash flow in the fourth quarter with 348.4 crores coming into the system and which was 66.5% a better cash flow than the Q3 of the same year 2020 and 18.6% better than Q4 of 2019.

Moving on, I would like to now cover the Q4 performance highlights. As you can see on the chart, what you see is our Q4 performance on the sales total revenue of 1273.8 crores has been one of the strongest performance in the last eight quarters. And having said that, as I already said, over the preceding quarter this was 13.7% better performance and over the Q4 of 2019 was about 22.9% better performance. Obviously, this came on the backdrop of the recovery from the automotive sector followed by some of the sectors in the industrial market as well as our own intelligent and agile utilization of the capacity, the plant capacity which was available to us, we were able to post a strong operational performance there. If one were to look at how did we fare between the Q4 and the Q3 and where did the revenue come from, obviously the automotive was one of the strongest contributors as you can see, with 118 crores coming out of the automotive sectors, industrial contributing marginally better than the previous quarter and exports too marginally contributing to the top line as such. Like always, I have always said that we have a pretty balanced portfolio business in India and as you can see here, our automotive part of the business represents about 48%. The industrial represents about 42% and we do have 10% of exports as well end of 2020. Compared between the mobility and the rotating components of the static sector, 79% of our revenue comes from the mobility sector and the other 21% comes from the other sectors which we talked about.

Moving on the next slide, where I talk about the earnings quality. We had a significant improvement in Q4 as I already mentioned due to, one, the market recovering and coming back and two, because of the very-very robust countermeasures that we had put in place and coupled with some of the projects that we were working upon which were realized into business EBIT in the last quarter of 2020. So when you look at the EBIT, as you can see here, we were able to deliver in the last quarter Q4 of 2020 a robust EBIT margin of 14.2% which at an annualized level for the year 2020 stands at 9.2%. When you look at in value terms, how did this EBIT reconcile, as I said, the strong recovery from the market coupled with the fact that were able to take a lot of projects to closure we were realizing into business, brought in about 153 crores from the revenue alone. We did have some adverse impact coming in from material cost which was a saving there and then we also had employee cost where we decided to pay off some of the parts of the variable part of the salary during the last quarter. With that we ended the year with 180.6 crores in the quarter for EBIT, as you can see, which stands at 14.2%.

So the profit after tax as you see here compared to 2019 which was at an annualized level 8.4% 2020 we closed the year at 7.7% and as you can see the last quarter Q4 of 2020 profit after tax was also a strong performance at 141.7 crores which annualized to was 291 crores that was delivered in 2020.

I move to the next slide which talks a little about the working capital ratio and the CAPEX and the free cash flow as well. The working capital was one of the pressure points for us during the year. While we started off in the second quarter of last year 2020, the working capital went up due to under utilizations and due to inventory buildup and also due to our over dues going up. However, towards the end of the quarter, as you can see, Q4 we had a much better situation on the inventory and the receivables management which enabled us to get the working capital as a percentage of sales down to 17% both for the quarter and at an annualized level as such. A look at our CAPEX and as I had mentioned in my last investor call that during the second quarter and the third quarter we had cut down or investments but it was not a stop in investments, it was only a deferment of the investments. As you can see here in the last quarter of 2020 we have already spent about 66.8 crores in our CAPEX plans going forward. A few of the projects which we did take to defer it into 2021 however, most of the projects we are on schedule our expansion plans are on schedule. And as you can see at an annualized level on the CAPEX spend to sales was at 5.6% which is lower obviously when compared to 2019 but that is attributed to the two months of lockdown that we encountered and as a result of which we had to stop activity. Look at the free cash flow and we have one of the stellar performances as I mentioned earlier and for the full year, we were able to generate 457.2 crores of cash compared to 2019 which stood at 247 crores of cash.

Having said that I would move to the performance indicators and on the next slide wherein we talked about, as I already mentioned, our Q4 performance has been a strong performance in the last eight quarters with the revenue growth of 22.9% compared to the same quarter of 2019 and quarter-on-quarter being a 13.7% better. On the EBITDA margin also we were able to deliver 18.2% EBITDA margin in the last quarter of 2020, compare that with Q3 which is at 17% or Q4 of 2019 with stood at 14.9%. Now the EBIT margin, obviously at 14.2%, I already shared this and when you look at it, it has again been a strong evolution from where were in Q4 at 10.8% in 2019. With this the earnings before tax, as you can see stands at 15% margin at 191 crores in the last quarter of 2020, compared that with Q4 2019, was 12% EBT margin and with 124 crores.

When you look at an annualized level, of course, the percentages are lower. As you can see, the EBITDA remains at 14.4% for the full year which was almost at the same level of 14.8 in 2019. The EBIT margin stands at 9.2% when compared to 11.2% of last year and the EBIT stands at 10.6% compared to 12.3 of last year. I have already talked about the profit of the tax. As you can see here, compared to 12.3 of last year. I already talked about the profit after tax as you can see here at an annualized level we stood at 7.7% as against 8.4% on the previous year. All in all, a strong performance if the demand driven by the demand revival that happened and also realization of many of our projects and operational efficiencies which we have planned and the good thing was the counter measures that we set up to achieve, we have put in a robust review process and I am happy to say that we have delivered and achieved whatever we set out to achieve in terms of our counter measures.

I come to the last slide where we talk about the conclusion and outlook. Yes, it has been one of the resounding performances in the quarter. The market did help us to a large extent as well plus as I said our counter measures which stopped both on the since performance side, on the successful realization into business of our projects in the pipeline, also a balanced portfolio between the automotive and industrial that too helped us to quickly recover the situation and continue to leverage the strong and deep connect, engagement that we have with our customers and which also enabled us to build a strong order book from the automotive customers as well. Not to mention the troop or range of lubricants which has received a tremendous response in the marketplace with strong order books coming in again and of course the demand uptick that we have seen in some of the sectors in the industrial sectors like the wind, the distribution after market, the off-road sector as well as the two-wheelers. With this we are optimistic and we want to remain optimistic and continue to stay ahead and we will continue to focus on being agile, being innovative and being efficient. With that I come to the end of my presentation. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nishit Jalan from Axis Capital.

Nishit Jalan: My first question is on if you can give some color on performance across mobility segments within passenger, two-wheelers, CVs. Just wanted to get a sense which are the segments where you are significantly outperforming industry because of the increase in content per vehicle or because of new product introduction that you would have done?

Harsha Kadam: Before I get into the sectors, I would like to talk a little bit about the applications as you know Schaeffler as a brand we are very strong with our product portfolio in the engine application and the transmission applications and having said that so be it the passenger vehicles or be it the light commercial vehicles we do enjoy a strong presence in the engine and the transmission applications. With this we did have a lot of projects in the pipeline as well when the transition in each sector happened from the BS-IV to BS-VI and as I did share in my past investor calls as well, the projects were coming into culmination resulting into business and which we have seen the business realizations happening. So, I would say that both in the passenger vehicles segment and in the light commercial vehicle segments we have seen a strong growth in our businesses because of the products as portfolio and the strong presence that we enjoy in these applications.

Nishit Jalan: Possible to give any numbers for segments or at least on the replacement side or our key segments like passenger vehicle as to what was the revenue growth on a YOY basis for the quarter for annual whatever way you feel comfortable?

Harsha Kadam: I have shown you that our portfolio as such is about 48% automotive and 42% industrial but within your automotive for me to go deeper, to share at this point in time I am a little handicap Mr. Jalan.

Nishit Jalan: My second question is on the margin front. We are seeing significant cost increases happening. So just wanted to get a sense with regards to your OEM relationships both on the auto and the industrial side, how has been the pass-through to the customers and the replacement side have you taken any price increase to obtain those cost pressures?

Harsha Kadam: Let me split the question into two parts. Let me take the latter part of the question first. On the aftermarket and the distribution side yes, we did do some price corrections last year which has also contributed to the positive development in our bottom-line performance as you can see. Coming back to the challenges that we face yes, the material cost began to go up in the last quarter of last year but we did not feel so much of an impact in the last quarter fundamentally because we were already having inventories which tided over however this year we certainly see that the material cost inflations have become a challenge to deal with particularly on steel as a product.

Nishit Jalan: Do you think that you would be able to maintain the margins and get price increases from the customers because we have seen a significant improvement in your EBITDA margins in this quarter as well?

Harsha Kadam: When you look at the extent of the inflation in the steel prices that have happened, they are abnormally high so this is something we cannot fully absorb within our operational efficiency improvements and cost cutting whatever we do. We will definitely be exploring the options of approaching customers to raise the price levels, to cover the cost, input cost increases that are happening. We also look forward to what the government would do in this inflationary situation. The main reason being because the rationale and the logic behind the increases are still not visible to us however and the increases are abnormally high as well. We believe that yes, it is a challenge and we see no options but to seek out and see to raise the price levels to cover those input cost increases that are coming our way.

Nishit Jalan: My third and last question is on the CAPEX front. Just wanted to understand how should we look at a CAPEX in the next 2 years and if you can classify or segmentize the CAPEX between expansionary CAPEX or on the localization front because that's also another factor that we are working upon. So just wanted to understand how should we look at CAPEX between expansion and localization as well?

Satish Patel: As far as our CAPEX spent is concerned, we have been consistent last couple of years and large chunk of our CAPEX has been spent towards the capacity expansion. This year also the CAPEX outgo that we have actually shown also in the presentation, over 70%-75% approximately goes for capacity expansion. Large chunk of the CAPEX is towards capacity expansion but at the same time we have also earmarked certain CAPEX for the rationalization and replacement because all the plants are not at the same age and lot many machines require over-hauling and the replacement but those also are linked with the latest technology and linked to certain capacity contributions because of the enhanced rationalization of those replacements as well. Yes, I confirm that our CAPEX is mainly towards the capacity expansions.

Harsha Kadam: Also, if I may add here when you look at our localization content as well in terms of percentage we have actually increased our localization content close to 75.5 percentage vis-à-vis which was at 72 last year, the year 2019 I mean. With that clear indication that the investments are coming in the region of CAPEX capacity expansions and we will continue to perceive that route.

Nishit Jalan: That means the CAPEX will remain around 3-3.5 billion range on an annual and absolute basis for the next couple of years, right?

Harsha Kadam: Yes, not billion, million.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram: My first question is on the content journey that we started post the BS-VI. We have seen once again a very good revenue performance along with underlying industry been very supportive in terms of higher production levels per se. Just wanted to check, you have highlighted new products like DTC, Damper, engine chain, clutch release systems etc. Last quarter you highlighted the average content per vehicle was around Rs. 3600 and we were on this journey to that somewhere around the Rs. 4700 mark per se. Have we added any new content for new customers per se in this quarter as well? If you can share your thoughts on that, that would be very helpful to understand.

Harsha Kadam: Yes, we acknowledge that a host of products have got added to the portfolio for the BS-VI range. Couple of them I did show on the slides, apart from that we have added the hydraulic lash adjusters, we have added the over-running alternator pulley also some variable cam-timing mechanism system then some valve-train systems as well, some idler-pulleys as well. So there have been a spate of products that we have brought into the portfolio for the gasoline engines mainly to address the BS-VI requirements and as I had shared in the past as well the content per vehicle which goes at €33 per vehicle in the year 2018, in 2020 we are at €38 and we believe that we will continue to increase this content per vehicle with further product portfolio that we are building up in the pipeline to continue to add more value products to our customers.

Shyam Sundar Sriram: Just to understand our very strong operating performance as well so our pricing for these products is it right to assume that we can also get a better pricing because these products would have otherwise been imported therefore our overall pricing would have also improved because of the content addition? Is that a fair understanding per se just to make sense of our EBITDA performance there in?

Harsha Kadam: Yes, you partly answered your question Shyam that while we started off with some of the products to be imported and given to our customers parallelly we started the CAPEX plans which Satish talked about also covers the automotive part of the requirements and our localization will continue and further enable us to become more cost competitive rightfully. The only question is the volumes that they pick up only when we do have a case to continue to build the investments in this country which I expect to see with this kind of recovery and the growth rates should continue to happen.

Moderator: The next question is from the line of Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: My first question is pertaining to the Railway segment. It has been around 10% to 11% of our overall sales. If you can give some more color about how the performance was in the past year? By what percentage has it increased or declined because the rolling stock orders were deferred and within Railways how much is freight versus passenger and how much is Metro? If you could give a broad outline to understand the portfolio base?

Harsha Kadam: Railway as a sector is an important sector for us and yes last year a number of projects were put on hold fundamentally because of the lockdown and even post un-lockdown as well we saw of a slower recovery in the Railway sector. If you were to look at last year’s performance I must say we remained status quo on the Railway part of the business however when you look at the first budget, first of February budget and kind of announcements that the government made in terms of launching spate of projects to stimulate the Railway growth story in India particularly on the dedicated freight corridors both the East to West and the North to South; we believe that we definitely have a strong game to play here and we do have a strong product line, the Class K which is under validation right now, the testing and validation. We believe that yes Railway is an important sector, we do have the product portfolio with us. Also what is interesting is the emergence on the government talking about some Metro Light as well as the intra-city trains that are going to come up so with this we see a plethora of opportunities in the Railway. We do have the portfolio and we will continue to focus and develop and also invest. We are in the investment route to bring in investments for the top of the products into India more and more as well.

Satish Patel: Just to add one clarification that as far as Railway business contribution in our total shelf is concerned that is about 5% however if you talk about only industrial business that is about 10%.

Sandeep Tulsiyan: Second question is pertaining to the aftermarket piece of our business. If you could also give us some more color as to how that piece performed in the past financial year and where is the reform as a percentage of our auto and as a percentage of industrial, we did share that, it used to be 20% of auto and 35% of industrial base in the past. So has those percentages changed materially in the previous year?

Harsha Kadam: If you were to see the aftermarket part of our business that is both the automotive aftermarket and the industrial aftermarket, both put together certainly we have seen some kind of a, I should say a consolidation that we have done there. In terms of automotive aftermarket certainly with the launch of new products we have seen a definite growth and improvement there. On the industrial aftermarket yes, we have not grown as much as we wanted it to grow. There was been marginal reductions there in terms of the growth there fundamentally because of the surging demands and our catering to the OEM part of this sector but that is something that we will be addressing soon coming into this year we have started to fix that, to get more traction on the industrial aftermarket part of the business.

Sandeep Tulsiyan: On an overall basis we would have still grown in the past financial year?

Harsha Kadam: Yes.

Sandeep Tulsiyan: Last question is pertaining to our content in this electric two-wheelers, another market is still developing but still 25,000 odd units have sold annually. What is the content over there that we are supplying to the major OEs over the years say Hero or Ather or Ampere who are the major guys? If you can share some products or what can the future scope of products that we can address for this particular platform that will be helpful?

Harsha Kadam: If you look at the number of vehicles that are sold compared to the total number of two-wheelers that are sold, the electric vehicle is a fraction of what the total population of two- wheelers that are produced in the country. So having said that yes we are catering to some requirements there but fundamentally with this is still at a bearing level. To get into analytic and the systems level we are working with couple of the customer partners here and we believe that we should be able to take these projects to closure in time to come. Again, all said and done it’s a question of a volume game here. So unless the volumes stick up the development would also get slowed down. Incidentally there was no mention of anything, any subsidies or brands or any stimulus from the government side towards the electric vehicle as such as well even in this budget as such. Having seen that seems like for the moment this is still going to take some more time to see a strong trajectory of growth.

Moderator: The next question is from the line of Mukesh Saraf from Spark Capital.

Mukesh Saraf: If I look at the P&L, in this quarter we have seen that per case of stock in trade has gone up significantly. It’s about 320 crores so just trying to understand is this pertaining to the auto sector, for the parts we haven’t yet localized on the gasoline side of it or is this largely being on auto space?

Satish Patel: No, this is not for that actually this is for the usual, the normal sort of purchases that we have which is largely for industrial business, not so much for automotive business. So there has not been any change in the structure as such.

Mukesh Saraf: On the industrial side, just continuing on the industrial side on the competitive intensity, we saw that one of your large competitors have seen some kind of a price division in terms of its agreement with its parent company because of the traded goods, what it imports. Do you foresee increase in competition because of that on the non-auto space?

Satish Patel: Not so much maybe we need to understand your question again. If you can repeat little and with a little more clarity about the question itself.

Mukesh Saraf: I am looking at primarily the non-auto space where SKF imports a lot of its bearings from its parent and we have seen that there has been a change in transfer price and agreement between SKF India and its parent, in a way the prices have been reduced for SKF India. Because SKF is our leading competition in non-auto space so just trying to understand do you foresee some bit of increase in competitive intensity especially on the pricing side of it because of the kind of price divisions they have seen?

Satish Patel: We are not able to comment about SKF's transfer pricing. What we can comment is about the market and the competition. The transfer pricing is result of the arm's length principles however as far as the price in the market is concerned that is purely based on the market factors. We do not think that a back end transfer pricing adjustments or back end any such sort of a considerations would actually directly impact the competition or the pricing in the market. We do not expect so.

Harsha Kadam: Also Mukesh just to add our strategy has been with a long-term vision and hence the localization drive what we do is to make us more and more cost competitive in Indian market and that is our direction and we are going to stick with it and we are confident we will be competitive.

Satish Patel: We are on this right strategy of localization, of being innovative, offering more and more advance solution to the customers and particularly localization is contributing to the cost effectiveness.

Mukesh Saraf: My third and last question is on your exports side of it. You had mentioned a couple of quarters back or so that APAC is one of the regions that you are focusing for exports. Could you just give us some update on that?

Harsha Kadam: Yes, I did share a few quarters back that we were strongly looking at exporting to the Asia-Pacific region and I am happy to say that yes, we have started to supply bearings to the Southeast Asian and Australian market as such. Having said that, if one were to look at, has there been any increase in exports in terms of percentages? We have still remained at 10%. The reason for that is while this side of the export market began to grow, we did see some drop in the European market fundamentally because of the pandemic and the wave 2 that is and that Europe is gripped with. So we have had some adverse situations on the exports, pertaining particularly coming from the European markets as well. However, our plan and strategy to start to cater to the Asia Pacific region will continue and it remains on track.

Mukesh Saraf: Any targets that you have in mind with respect to the export business say years down the line?

Harsha Kadam: I'm afraid I cannot share that right now.

Moderator: The next question is from the line of Bharat Subramanyam from Sundaram Mutual Fund.

Bharat Subramanyam: You talked about a lot of new products that you brought in and increase in content per vehicle, etc. But overall if you were to look at the business for CY20 whether CY19, what would be the contribution of new product initiatives to the overall turnover would be upwards of 20% or would it be around that from new products?

Harsha Kadam: Yes, I do not have the specific number, but all I can tell you is the new product contribution to the total top revenue. Total revenue is definitely on the increase fundamentally because there were a lot of projects in the pipeline in the last two years. We have started to see them fortifying into supplies and deliveries, resulting into business and this is something we will continue to do more and more. And with the impetus more on the BS-VI and reducing emission, the challenges on the emission front we see still more opportunities as well. So we will continue to add more projects as we move forward.

Bharat Subramanyam: Just one other question on the import content, this quarter particularly we had a higher input content about 25% or borrowed items of 25% of sales, at the same time the margins from one of the best for a long while. So, is there anything to read in between this and if you could guide us to, what kind of margin levels could be more operative and normal from a medium term 18% margin of pretty high number. So what could be the medium term operative range of operating margins, if you could give your thoughts on that?

Satish Patel: Yes, so on coming to your first part of the question that imports have gone up, actually it has gone down. Imports have not gone up and if you look at the trend of last two years or last two to three years, our localization which we mean finished goods produced wiz-a-wiz the total sales as part of the overall localization strategy that has gone up. So that was below 70% about two years back and now it is above 75% currently. Including the couple of quarters of this year that, we have not gone up on the import side. Coming to the second part of your question about, the streamly sustaining the margins. Yes, this year some quarter you see particularly Quarter 4, the profitability has been significantly better. Margin level has improved because we have realized the full impact of the countermeasures that has been reflected in the very last quarter. Yes it is clear that this level of countermeasures because of the specific situation of the year, which were initiated and fully realized, all of those countermeasures cannot be sustained forever. As the market grows the demand situation changes and overall growth and the situation changes in the future. This would certainly also change. So, sustaining that level of margin is very-very difficult. We are not able to let's say set a number that what would be that level of operating margin, because year on year this has changed. If you look at last three years, we had a situation of 2019 where there were actually hit back in the automotive business because of the market conditions, 2020 we were hit because of the pandemic. So there are uncertainties around and therefore it is very difficult to let's say set a number, what would be the normal operating margin? But yes the current level of margin is the result of special actions and all of those could not be or cannot be sustained for a long time. Some of the hard cuts also we have to roll back and that's how I paint summaries that all of them cannot be sustained.

Bharat Subramanyam: Lastly, there's been a lot of initiatives with the government to help the industry through PLI schemes and particularly for the automotive related sectors also, in the light of this is there increased levels of discussion at the management promoter level from the parent to add more capacities here to do lot more on expansion? What would be your thoughts on that front?

Satish Patel: From the parent and promoter side definitely there is a full attention to India and that's how is reflected in our localization strategy as well, right? That you see here, the footprint is expanding year after year, we have set up the new two plants in last three years and we are expanding further. So the footprint of India is actually expanding year after year. There is a strong attention. It is irrespective of let’s say special initiatives and the very recently announced PLI scheme we are yet to await the fine print clarity and the clarity about the PLI. So irrespective of that, I think considering the potential exists in our country and considering the growth opportunities are there in all the sectors automotive and industrial, yes there is a full attention and the footprint is only expanding.

Harsha Kadam: Also if I may add, the investments that we are making in the R&D infrastructure as well in the last two years and now going forward into the area of Mechatronics, which we have investing heavily in with recruiting a lot of engineers to work from Schaeffler Projects are clear testimony that the focus by Schaeffler group in India is quite high.

Moderator: Thank you very much. Due to time constraints, we will have to take that as the last question I would now like to hand the conference over to Mr. Chaudhry for closing comments.

Vijay Chaudhary: Thank you ladies and gentlemen for your participation. We will now close the call. If you have any further queries, please reach out to me or drop an email to me at vijay.chaudhary@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 ladies and gentlemen, you may now disconnect your lines.