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"Schaeffler India Limited
Q4 CY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Schaeffler India Limited Q4 CY '22 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference to Ms Gauri Kanikar. Thank you, and over to you, ma'am.

Gauri Kanikar: Good morning, everyone. Thank you for joining us today. We have with us from the management, Mr. Harsha Kadam, our Managing Director and Chief Executive Officer; and Mr. Satish Patel, our Director of Finance and 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: Hello, good morning. This is Harsha Kadam. Along with me is Satish Patel. I would like to take you through the presentation for this fourth quarter and year that has gone by. I would first like to touch upon some information on the economy and the industry. And I would like to throw light on the business of Q4 and the twelve months for the year 2022.

I will then cover the financial highlights for the same period as well. And lastly, I would also like to touch upon how Schaeffler in India, we continue our focus and commitment towards stakeholder value creation. So let me start, and I'm referring to Slide number 3. What you see on the slide is the economic indicators. And as we all are aware, the last quarter of last year, we began to see strong headwinds coming in our way particularly with the global economy, monetary policies getting tightened up as well as the prolonged war in Ukraine. And having seen these challenges also with the imposition of the economic sanctions in many of these countries, things began to weigh down on the economic outlook for India as well.

But having said that, we also see a strong traction in many of the industry segments plus the government's initiative post the budget to up the economy and specific focus being brought upon, which I will talk to you in the next couple of slides. So with all that, the indications are that the year 2022, India will end the year close to over 6.5% GDP. The concern that is nagging on all the business community is on the inflation side. And the last quarter saw some of the steep increases in inflation began to moderate down.

And that is going to be one of the key indicators to watch going forward as well. One of the positive developments that we could see was in the passenger vehicle segment in the automotive industry. We saw strong traction coming back in the last quarter, and that helped to shore up even our business performance to some extent. I will move to the next slide number 4, where I will talk a little bit about the core industrial sector. And what we see here are some of the core sectors like cement, mining, steel production and the power generation, as we can see.

Looking at the trend, a strong traction on the cement sector, and this is clearly riding on the back of the infrastructure push by the government, not to mention even steel began to see some

stronger traction in the last quarter as you can see from the bar graph there. And mining too, which had gone down in the second and the third quarter began to revive in the last quarter, and we began to see some stronger traction even in the mining segment as well. I move to the next slide, which is going to talk a little bit on the automotive sector. And what you see is the 2-wheel and 3-wheeler sectors is where we saw some contraction happening in the last quarter.

As we can see, the dark green bar that's began to reduce towards the month of December, and this was one of the sectors which actually we saw some slowdown in the last quarter. However, the passenger vehicle segment continued its stronger run even in the last quarter, and talk of commercial vehicles, it too continued to keep its speed and momentum. Coming to tractors, this was one of the sectors where we saw the slowing down of demand in the last quarter again. I move to Slide number 6, and I'd like to touch upon a little on the Union Budget that the Government announced on the 1st of February, and what you see is that focus on 7 areas that the Government is clearly prioritizing.

Having said that, what is the view for us, and I will touch a little bit upon some of the sectors where we see relevance to our business. One, obviously, is the focus that the government is wanting in terms of infrastructure growth. And one of the benefiting sectors here is the railway sector where we have bagged some business wins in the Vande Bharat Express trains, and we believe that we see some positive movements coming in this area, with the government announcing close to 200 Vande Bharat trains for this year alone.

And that would result in a number of wagons and coaches, which definitely is going to be a big boost for the infrastructure industry and railway as a sector, and as Schaeffler we see some good advantage there. Talk about the other sectors, and that would be on the wind, the Government revising its wind energy projects and setting 8 GW new builds till the year maybe 2030.

This would also enable the domestic wind capacity installations to move up, which has been languishing, and clearly, this is something that we as Schaeffler too, look forward to. I would like to now move to the business highlights, and I am on Slide number 8. Let me start with giving some summary of the performance in the last quarter. I must say that in spite of the stronger headwinds that we saw by way of some of the industry sectors going down, particularly wind in the second half of 2022 went down drastically.

This is coming on the back of the economic sanctions that got enforced across the globe. And the result is slowing down the demand for wind equipment, which resulted in the export business of the wind equipment manufacturers to slow down. In spite of these kind of headwinds, I must say I'm reasonably satisfied with the good performance that we have posted in Q4 of 2022. What has helped us here is the balanced portfolio that we enjoyed.

As I said, if one of the segments were down, the other -- the passenger vehicles and the automotive sector did very well for us in this quarter. Also, a number of projects that we have been consistently working upon, we brought some of the projects to a closure resulting into business and start of series supplies as well. We have embarked upon this journey of ESG, and this is the way that we believe we can create more value for our stakeholders, and that's something we have to remain clearly focused upon. I will talk about the ESG program that we

have launched in the next couple of slides. And last but not the least, we are also happy to announce that the Board recommended a dividend of INR 24 per equity share, which is at a face value of INR 2 and the payout ratio stands at about 43%.

So, what are the risks that we see going forward? While the macroeconomic challenges continue to remain, we will definitely see some headwinds in terms of inflation. And some of the input costs -- all the other input costs by way of steel is a little bit in the last quarter of last year, but we believe that we still are wary with the inflation being high, the input cost would continue to stay at us. Having said that, I draw your attention to the performance.

And as you can see for the quarter Q4 2022, compared to the last year Q4 2021, we grew almost 17.8% in terms of sales revenue, and 2.2% when compared to the preceding quarter. And the sales revenue for the quarter stands at INR 1,794 crores. This obviously came on the back of strong performance on the profitability as well. And we have been able to deliver a reasonably good profitability of 16.2% EBIT margin for the quarter, and which is at the same level as it was in Q4'21 in spite of the headwinds that we faced during the quarter as well.

And this takes the profits to -- EBIT to INR 291 crores for the quarter. And the profit after tax margin stood at 12.9% for the quarter and compared that with Q4'21 stood at 12.5% what it was. The free cash flow, we were able to generate more cash in this quarter, consistent and sustained efforts by the entire team on generating more cash. The free cash flow was 32.7% compared to that last year was definitely much stronger numbers. This is an area that we intend to keep the focus more going forward, and we would like to address this.

I move to the next slide, which talks about some of the business wins that we have been able to generate. And I must say that one of the biggest breakthroughs that we have managed to get is with one of our reputed business partners. We have our first offering at a system level for the electric vehicles - passenger vehicle application. This is a 3 in 1 e-axle with the power electronic unit as well, which has kickstarted, the development is already underway with one of the major OEMs in the country.

And once we are ready with the product, we anticipate that by the year 2024, we should be heading to series supplies to the customers on this. Having said that, our focus on the EV continues to represent. And even the bearings which go into these applications, we have managed to secure quite a few wins, be it in the wheel bearings applications or even in the transmission applications, which is in the IP engines. We continue to get the new business wins on the automotive side. Talk about the automotive aftermarket, we have started to increase the reach and coverage on the new products that we have been launching.

We have launched the wipers already, as you know, and we have now started to extend the reach of this product as well to the market, not to mention, of course, we continue to build on the engine oil and the lubricants that we already launched. On the industrial side too, we have been able to get some new business wins on the spherical rollers, the 3-wave TRBs particularly going into the steel industry. And of course, Railways where we have managed to garner some business on the Vande Bharat and LHB coaches.

With all this, how did the financial results come out. I move to Slide number 11, where in the bar graph that we see that is the total revenue development. And as you can see, we were able to post one of the highest sales revenues in the quarter compared to the last 4 quarters. And as I already said, we were able to deliver probably INR 1,794 crores, which is a clear 2.2% better than the preceding quarter. And if one were to compare it with last year, a clear 17.8% better performance.

With this at an annualized level, the turnover of Schaeffler India went up to INR 6,867 crores, and this is, I must say one of the strongest performances that we have seen in the year 2022. However, when we wonder to look at the business divisions that we operate in, the strongest growth, obviously, was in our export business. And as you can see, clearly in the quarter, over the preceding quarter for export business grew at 17.5%. But on the industrial side, we did have a slowdown particularly in the wind equipment.

And as we are a strong player in the wind sector, it pulled down the industrial performance over the preceding quarter like 2%. All in all, when we look at the annualized level, you will find that our export business has grown close to 60% compared to the same period last year. And the automotive technologies growing by about 24%, automotive aftermarket about 18% and industrial overall 12.4%. Industrial -- the initial forecasts were pretty strong. However, in the second half of the year, wind was one of the factors where we saw a lot of momentum loss due to the demand going down. Having said that, the mix, as you can see, while we have been saying about the balanced portfolio that we enjoy, and for the quarter of 2022, when you look at the sales mix, what you will find is our export business, which is 19% -- a percentage and odd of other businesses that is reflecting in it as you see. But definitely, there has been a significant improvement in our export business even in this quarter.

I move to Slide number 12, which is throwing some light on the working capital development as well as on the capex and the free cash flow. Now as you can see, our working capital - while the numbers look good, we have brought down the working capital as a percentage to sales to 17% in the quarter, which is one of the lowest numbers that we have hit. But then well, this is something that we need to manage well to ensure that clearly, our inventory management, while we continue to focus on managing the receivables, we need to manage our inventories in a much better shape as well.

Talking of capex, one of the milestones that we hit in the quarter, as you can see, our investments have continued to progress. And in the quarter, we already invested about INR 183 crores coming into our plants, particularly on the industrial side of our business. And we will continue our efforts in increasing our investment levels in the country as we move forward as well.

So talking of the free cash flow, yes, there was a strong free cash flow generation, and rightfully, as it has come only towards the end of the quarter, but I guess we'll have some work to do here to ensure consistency in each of the quarters, and this is something we intend to take up as well moving forward.

I move to Slide number 14, where the indicators are throwing more light in terms of the margins. And as you can see, I already talked about the revenue growth. The EBITDA margin for Q4 was

19.2%, ended the year with 19%. And the EBIT margin for the quarter was 16.2%, and for the full year for the full year is 16%, which is definitely better than the previous year, which was at 14.3%, as you can see. And the profit after tax, as you can see in the quarter was INR 231 crores, resulting in 12.9% margin, while at the full year effect, we have been able to bring them INR 879 crores, which is at the same percentage at 12.8%.

I move on to the next part, which is stakeholder value creation, and I am on Slide 16. As I have shared in the previous calls that we have embarked on the journey of ESG, which stands for environment, social and governance as being the base of our business operations. And this is clearly with an intent to ensure that we create better value for all the stakeholders involved in our business. Having said that, Schaeffler as a group has now framed clear targets, and 8 such targets have been chosen.

And what we see is the first target being that as an organization globally, we want to become climate neutral by the year 2040, and this would increase the entire value chain that engages with us. The second target, as you can see, is all of production plants –they have chosen climate neutral by the year 2030, and all efforts are being made, investments are being made in that direction to ensure that our plants become climate-neutral.

Talking of sustainable suppliers, we have some clear targets there as well, 90% of the purchasing volume of production, the materials that we source also will have to start to comply based on the self-assessments that are going to be done by our suppliers by the end of 2023, so we have an engagement of 90% of our suppliers to be completing the self-assessment.

The fourth target is on renewable energy. And clearly here, all the power that we purchase for operating our plants and our operations have to be from the renewable source 100%. And this we have to achieve by the year 2024. Talk about diversity and getting women into the organization, including at leadership positions, the group target is 20% of the women in top management positions by the year 2025. And look at energy efficiency, one of the other targets, and we have a clear target here to also start to cut down the amount of energy we use in our operations, and the target here is 100 gigawatt - our accumulated annual efficiency reduction by the year 2024.

One other important target is to make our operations safe place to work in, and where, the employee safety comes on top. And as a result, we have taken a 10% average annual reduction in the accident rates as we measure by the year 2024. Last but not the least, the fresh water supply, the amount of water that we consume in our operations, that the group has set the target that we have to reduce the water consumption by 20% until the year 2030.

I move to the next slide, which throws the light on the Schaeffler India targets for the same parameters because we are in a different part of the world and different factors govern this part of the world. So, while some of the targets we have in fully alignment with the group projects like carbon neutrality by the year 2040, our plants to become climate neutral by the year 2030 and sustainable suppliers with a 90% purchasing volume that is done, these are the targets where we are fully aligned with the group targets.

Talk about renewable energy, and clearly, we are here to -- we are aligned to get to 100% purchase power from renewable sources by the year 2024. While on the diversity, we have taken a target of getting 8% of the women and female employees by the year 2025, which is certainly a lower target considering this part of the world where we lag behind.

Talk about energy efficiency, the 100 gigawatt hour that I talked about. And for India, we have taken a target of reducing the 4 gigawatts of our accumulated annual efficiency by the year 2024. And the employees still see their targets fully aligned with the group projects that we have said as well as the fresh water supply, which we have already set.

I'll move to the next slide, and I'm happy to share that we have been consistently carrying out our corporate social responsibility activities particularly in health, in the area of preserving culture and environment, in the area of upskilling and educating the community and the society that we operate in. One such environmental project that we were running called Jal Sahara has won an award. And as you can see here, the award was by CSRBOX and this was a very, very effective project that we were able to execute in a place called Khed district near Satara which was an arid region.

And the extensive engagement that we did along with an external agency has resulted in 44% rise in the water level and thereby increasing the agricultural income for the community and the farmers who are operating there. And also, what we have seen is the migration from the village to the cities also have seen some reversals due to the projects that we have been effectively running and this was awarded with this award.

Moving forward, I would like to talk a little more on the stakeholder value creation, and that is about the dividend payout that was recommended by the Board. I'm happy to say that the dividend per share that we would be paying for the year 2022 stands at INR 24 per equity share, and this is a clear 50% increase over last year's dividend, which was at INR 16 per share. And as you all know, there is a clear target dividend payout ratio, which will be in the range of 30% to 50% of the net income. I'm happy to share that Board of Directors of the company yesterday in their Board Meeting have approved and have passed the resolution for this.

With that, I come to the last slide, and this is more to summarize. It was a strong performance in the year 2022. We did enjoy some tailwinds as well from the business side. Also some of the headwinds in terms of inflation and slowing of the demand in some specific sectors. Margins, obviously, were supported by the increased volume growth that we were able to generate, plus the mix between the businesses. And the kind of focus we have kept on the countermeasures that we started off, and these activities get renewed exhaustively, and we continue to keep the focus on ensuring that the counter measures that we put in place to deliver.

Plus the focus is on consistent capital deployment, it continues to remain and also the strong cash generation, which is definitely helping to keep the balance sheet robust. Coming into 2023, yes, we do see some strong headwinds as well, inflationary pressures and some slackening of the export demand, but we will have to wait and watch how the situation develops. But as of now, we, as an organization, remain committed to make India the place to be and continue to

put efforts to ensure that we grow our business here, but in the structured manner of ESG that we are going forward with.

With that, I come to the end of my presentation. Over to you.

Moderator: The first question is from the line of Ankur from HDFC Life.

Ankur: Congratulations on a good set of numbers. So 3 questions, which I had. So one was on the exports front, where we've again seen in Q4 some momentum again being taken up in the top line numbers. And clearly, this comes in a backdrop of slowing global economy. So if you could just help us understand how do you see the broader picture on exports over the next few quarters? I remember last quarter also, you mentioned that obviously, Schaeffler benefiting some relocation of manufacturing into India. So if you could also touch upon that and give us some more color on that.

Satish Patel: Yes, thank you, Ankur, for the question. I'm Satish Patel. As far as our export strategy is concerned, we have been living with that and that reflected in the quarter-on-quarter growth that is recorded in terms of our overall exports. Yes, there is a global downtime, and our performance in exports goes slightly against that - yes, sorry for the interruption because of some microphone issue. So since we have the specific relocation strategy for our large size bearings and also certain categories of the midsize bearings, and those have been progressing quite well.

We have also the investments earmarked for that - Q3 high ratio of investment - one of the contributors is also exports. And this has contributed because of the specific strategy of exports also in the revenue growth. This we would continue to have also in the future. So for the years to come because of the investments that we have earmarked and because of the strong order position and also the strategy to actually localize certain products, this will help in further improvement in overall exports. So yes, there is a global condition of the economy, which is not so encouraging.

But Schaeffler has particular strategy in terms of localizing of the products to the countries where there is high competence, both on the technology, as well as on the cost. And India is in the front runner and thereby we have that focus of having the exports. We have announced this also quite many times, but we are delighted to now say that we have been leading with that and we will stay on course regard to our exports growth.

Harsha Kadam: If I could add here certain share, there could be a lag factor, which is something we like to wait and watch because normally, the global slowdown that is always going to be a lag in terms of -- that reflecting. So, I guess the succeeding quarters is actually going to tell us how are the export business is going to develop as well. So it's a little volatile, but we'll have to wait and watch.

Ankur: Sure. And sir, possible to break out the region-wise exports for you into, say, APAC, EU and the US or whatever region-wise breakup you can share?

Satish Patel: We do not have that number ready, but I can confirm that we do not have disproportionate ratio between the regions. So we have been exporting in all the continents. So, our exports to US, to

North America is much as to Europe and as much Asia. So it's more or less balanced. Yes, it is no -- there is no single region which is significantly outperforming.

Ankur: Sure. And just tying that up with your capex numbers because this year, if I look at your press release, you've done about INR 480-odd crores of capex in CY '22. If you could help us what would be the capex numbers in CY'23, what is it more for the export market? I think you mentioned about industrial segment being where you're looking at putting up capacity. So if you could just help us there as well?

Satish Patel: Yes. So as far as 2022 is concerned, we have invested a total capex of about INR 500 crores, INR 499 crores to be exact, so close to INR 500 crores that we have invested already in this year. We would invest similar about INR 500 crores also in the next 2 to 3 years. So, we have been actually announcing that we would invest INR 1,000 crores in 3 years in the past, which will now be revising to INR 1,500 crores in 3 years. So we would invest INR 500 crores every year.

And investments will be for relocations and the capacity expansion for exports. Also, for our domestic business growth, particularly industrial business, we are setting up the new plant with large manufacturing facility in Savli near Vadodara, and we are also setting up the new plant for automotive on futuristic products mainly in Hosur. So these 2 plants will contribute to domestic as well as export business growth.

Ankur: And obviously, given the large scale of capex, you obviously see that kind of demand visibility, therefore, we should expect good asset turns. And lastly, sir, on the auto aftermarket, I think if you could just help us understand a little bit more on your reach of new products, what kind of growth you expect there? I think after a very strong CY '21, there is a slight flattening of growth there. So if you could just help us well on the auto aftermarket again.

Harsha Kadam: Yes. On the automotive aftermarket business, we have been consistently developing and launching new products. We started off on the journey and the transition of the regions went from BS-IV to BS-VI. And now post 2 years or 3 years after the vehicles are on the road, we are seeing a traction in demand for the BS-VI product applications.

So accordingly, we continue to launch a lot of new products conforming to the BS-VI norms. Apart from that, of course, we also see very strong demand coming from the OES spares, which is the original equipment spares business as well. Third, being, we continue to launch new products as well, which is more traded. So the recent launch is already of the wipers, very soon, we're going to launch the batteries which is going to be coming into the market soon. Hopefully, in the next earnings call, I will be able to share that happy news as well.

So we are expanding our portfolio of offerings that go on the automotive aftermarket. And we will continue to do that as well. Also, what is happening is -- what we are doing is some of the new products that we already launched like the wiper blades for the UJ cross, or even the shock absorbers and dampers, these were not yet pan India. Now we have started to extend the reach of those products going all across India. So this is something we will continue. And we believe that all more aftermarket there is an area where we can do more.

Ankur: And just one last one, if I may. If you could give us the full year calendar split as you do between industrial, breaking it out into aftermarket, 2-wheeler, railway, wind. And similarly on autos, the transmission, engine, chassis -- if you could just give us a breakdown for the full year?

Harsha Kadam: Sorry, actually couldn't get your question, if you can repeat that?

Ankur: Yes, yes. So I was saying that if you could give us the breakup of your full year revenues for industrial, out of industrial, how much there is aftermarket, 2-wheelers, railways, wind? And similarly, on the automotive sales, how much is transmission, engine, chassis, the breakup you give us in terms of percentages.

Harsha Kadam: I did talk a little bit about that already on Slide number 11. The same splits I was already showing that 39% of the business was from automobile technology, 33% was coming from industrial, 9% was coming from the automotive aftermarket, and then we had, of course, exports 19%, which has grown compared to the last year and the last quarter as well. So we already have that.

Ankur: Yes. So I was talking more on subsegments within industrial. So how much would have been railways, wind, 2-wheelers. And similarly, within auto, how much would be engine system, transition systems?

Satish Patel: I can give you broad numbers out of our automotive aftermarket and industry if I take other than exports, the domestic maybe like 100%. Automotive and aftermarket together are about 55%, industrial is 45%. And amongst this if I take automotive alone, the 70% of automotive technologies alone is from engine transmission and automotive aftermarket. I already said about 10% in the overall revenue only from automotive, it will be about 17%-18%; industrial 45% overall revenue and overall, 2-wheeler is around 8%. So, if I say only industrial, it will be about 15% and likewise the other sectors.

Moderator: Next question is from the line of Vimal Gohil from Alchemy Capital.

Vimal Gohil Sir, firstly, on my capex number has been answered, so thank you for that. On the margin front, we have been experiencing some bit of pressure on the raw material side, although it is very encouraging to see an expansion in this particular quarter. But is there any under recovery that you are still seeing in terms of pricing with your OEM clients or in the aftermarket segment, etcetera? I mean, I'm just trying to see if there is any further scope of margin expansion here because of under recovery in pricing.

Satish Patel: Yes, so I would not relate under recovery in the margin expansion in some way -- in any way for the fact of the matter. Our performance has quite many contributors. The first contributor is the revenue -- consistent revenue growth and more so the quality of revenue because the sales mix is better, we have larger contribution or improving contribution from our exports.

Also, we have grown in domestic business in some sectors, which are relatively better in terms of the profitability. So that is one of the reason of overall improvement in the margin. And second is the cost discipline and the cost level of the revenue within the normal range. We have been able to absorb the large portion of the inflation because of the internal countermeasures. And yes, there have been recovery also of the steep hike in the steel price. This is also to a certain

extent, or I would say, to a large extent, neutralizing the negative or the adverse impact on the performance.

Vimal Gohil: Sir, on the industrial front, there has been a lot of talk in the country around private capex picking up very, very meaningfully. However, if we were to look at our numbers for the industrial, they've been sort of flattish over the past couple of quarters. Of course, you did mention that there is some portion of wind that has impacted, but given the fact that it has turned our performance to be flattish for the last 3 quarters means that wind is very, very material in our numbers for industrial. So if you can just quantify how much is wind and what is the outlook? I mean, when is wind expected to pick up?

Harsha Kadam: Let me take the first part of the question, the wind itself. If one were to look at our performance on the industrial side in the first half of the year - Q1, Q2, we had very strong traction in industrial growth fundamentally because we are strong in the wind sector and approximately close to 10%, 12% of the total revenue is coming from wind. And so in the second half, what we saw was drastic reduction in demand because of the economic sanctions that got imposed in most of the countries in Europe, due to the war as a result of which a lot of projects from the customers in India were all put on hold or on the back burner, so to say.

So, with that, we have seen a drastic drop in demand in the second half of the year, which resulted, and that is the reason you see industrial being a little bit flattish. Coming to the second part of your question as to when will the situation change, well that's something time will only tell because I don't know when those sanctions will get lifted or -- then with the wind as a segment pick up.

However, looking at within India, the domestic need, the recent budget where the Government of India announced that they are now going to open a big 8-gigawatt hour every year for the next 8 years tenders. And there is a talk of mention of incentivization to propel the wind segment to grow in India. These are, of course, strongly positioned to -- in this sector, and we look -- certainly look forward to this getting implemented. So we'll evaluate and watch how things develop here.

Vimal Gohil: Understood, sir. So the core domestic sectors like steel, cement, mining, which are the bread and butter for core industrial for us, those segments are doing well, right?

Harsha Kadam: Yes. If you see the core industrial segments like steel, cement, mining, where we operate in, definitely has done well, and that is also one of the reasons that we have been able to -- from the industry and business side have been able to post 12% growth over the last year because the other sectors have done well, except the wind energy, which has been languishing a bit.

Vimal Gohil: Understood, sir. Sir, next was on the Tamil Nadu plant, what I recollect is you had signed the MOU somewhere in 2021. And correct me if I'm wrong, if you can just give us some updates on how is the ramp-up of that plant, where are we in terms of commissioning, how far are we from commissioning that particular plant? Because I guess, Mr. Patel highlighted that there is -- we are planning to make futuristic automotive products in that plant. So if you can just give us some update over there.

Harsha Kadam: Sure. You're right that the MOU was signed way back in 2021, end of 2021. And finally, we got the final allotment of the land about a month back, and we have already initiated or started off the work towards building this project now. So currently, as I'm speaking, there is levelling activity that is happening at our site there. And we expect by end of next year, we should have the plant -- the buildings have to be completed. So this is already work in progress, investments are already done towards this project. And soon we'll share the good news once the plant goes on stream.

Moderator: The next question is from Mukesh Saraf from Avendus Spark.

Mukesh Saraf: Yes, my first question is on the capex itself. In some of the previous comments, you had mentioned that you'll be expanding the TRB capacities. And I do notice that some of the competition is also looking to expand into CRBs and SRBs. So basically, the bearing sector, you're seeing a lot of capex happening from companies outside of their core historically strong areas. So do you see a situation where in the next couple of years or 3 years, competitive intensity can actually significantly intensify in some of these areas and probably has some impact on margins, etcetera.

Satish Patel: So, we couldn't get your question for clearly -- can you please clarify the last part of question what we understood is that peers also investing in similar product ranges. And we are also investing. So would that cause some profit pressure. Will that be the question?

Mukesh Saraf: Yes, on those lines. So, my point is that you're expanding more into TRBs, which has probably not been one of your strong points in the past, while competition is, say, expanding into CRBs and SRBs where they have not been strong in the past. So there's basically capex happening in all these subsegments within bearings. And so how can that impact the market?

Satish Patel: Yes. Maybe -- I think my -- what I said, clearly, I also said we are expanding the SRBs and CRBs, yes. So that's what I mentioned. And I mentioned the major investment, there are investments in other product segments as well. So we are investing everywhere. But these are the areas where we are investing quite significantly. And that was also in connection with exports. So we are not only investing for domestic, we are investing for exports as well, where there is a significant growth opportunity and relocation opportunity. So there is no sort of the site that we have as regards -- sort of utilization pressure of the investments that we are making and thereby, some sort of margin pressure going forward.

Mukesh Saraf: On the second question on the e-mobility wins that you had mentioned during the presentation. Could you give some sense on the localization levels we are at right now? And what are our target levels, say, in the near future, especially for the power electronics that you had mentioned.

Harsha Kadam: Let me take that. And yes, we have the developmental work initiated with -- working with our customer. And localization plan definitely is on the card. But I guess it will happen, we need to first agree and come out with the right design, which is exactly what is happening. In the next few months, hopefully, the design will be frozen and we will get into the prototype stage. So localization definitely is there, but not this year. We don't see it happening this year.

Mukesh Saraf: So right now, it will be more dependent on imports.

Harsha Kadam: That's true.

Moderator: Next question is from the line of Sonal Gupta from HSBC Mutual Fund.

Sonal Gupta: Congrats on a good set of numbers. Just wanted to understand, one, I mean, given the FX volatility, I mean, would we have any FX gains or losses that are there in the other operating income or in the other expenses this quarter?

Satish Patel: Yes. So for the whole year put together, we have really no negative or adverse impact because of FX. Large amount of our imports is in INR currency because the currency that we have determined with our purchases, our sellers -- sorry the other companies is in INR. We do have exposure in dollars. Euro exposure is very minimal because of INR currency. Dollar exposure, we do have, but we have exports as well so there a natural hedge, and the net exposure of foreign currency is not so significant. And for that also, we have a structured hedging policy. So we have been able to mitigate the volatility and the overall impact of FX during the whole year is not significant.

Sonal Gupta: Got it. So you're saying the Euro exposure is fairly low and most of our exports to the region are rupee-denominated. Is that the way to understand it?

Satish Patel: Most of the imports are rupee denominated, and exports in the same countries are also rupee denominated.

Sonal Gupta: And sir, could you also touch upon -- my next question is on the railway side. So could you sort of -- I mean how much is it as a percentage of revenues for you currently and like you talked about? And have you seen a significant increase in government capex on the railway side? So how do we see this business over the next couple of years?

Harsha Kadam: So on the railway side on the business, and as I said earlier, that we have -- we've been making investments here as well, right? And also we've been working on new designs of our products for the new trains that are coming up. As I said, the Vande Bharat train, which is already launched, and now the government has announced 200 trains this year. And the next train, which is already -- it have to be named and then the speeds are going to be roughly about 200 kilometers per hour. With this new technology definitely will be required in our product as well. And this is exactly our focus here to look at the higher value creation with our customers in the area of performance, in the area of reliability, both these as well. And that's exactly where we are focusing on.

Yes, we do have some of the applications like the freight trains which is where we still have to get our act together to bring good products into the market. But I must say that our focus continues to remain on and better performing products for the demanding applications where, as you know, the railways is transforming, and we want to be on the growth trajectory. So right, having said that, railways will continue to remain our focus sector for us going forward, and we certainly want to bring in more digital content into our solutions and offering, and there are

projects that we are already engaged with the railways to bring in our digital solutions as well. So, as I said, we will stay focused on bringing technology products to the railways as a sector.

Moderator: The next question is from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: You talked about the capex of INR 500 crores per year for next 3 years. So is it possible, I mean could you elaborate it? Are we setting up more plans? Is it a greenfield or brownfield expansion and so on.

Satish Patel: Yes. So I already mentioned about the focus of the capex in different areas in different product segment as well as plants. So the plans that we have already now decided to go for, which is mainly the new plant here, also for automotive business. And significant expansion in Savli plant. In addition to these 2 plants, I think in the next 2 years, we do not have a plan to set up any other plant. So, the investment that we mentioned are in these 2 plants as well as in our existing other plants which are located - one in Talegaon near Pune and another is in Maneja in Vadodara.

Mahesh Bendre: And sir, what is the current capacity utilization across our factories in India?

Satish Patel: Some of the plants which have very high-volume standard products that are utilized 85% to 90%. So, our Maneja plant is in that range and automotive plants are utilized 75% to 80%.

Mahesh Bendre: Okay, okay, so for incremental growth for next year, capacity constraint should not be the problem.

Harsha Kadam: No, not at all.

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

Sandeep Tulsiyan Yes, first question is pertaining to the railways segment. Firstly, if you could dissect within railways broadly which are the segments that we are catering to now, how much of revenue is coming from locos, passenger cars, metro trains. If you could give us some sense? And what percentage of our total revenue in railways today. And also regarding the recent order that we have got from Vande Bharat train sets, if you could highlight which are these bearings are we doing the UIC 130 bearings over there or we are doing the SRBs over there. If you could just give us some more color and explanation of what type of products are we catering to these Vande Bharat trains.

Harsha Kadam: Yes, let me take the first part. As you know, when you talk about railway as a sector there are 2 parts to it. One is the Indian Railways which is you have the locomotives, you have the passenger trains and then the freight trains. The other part is the urban metros, metro trains, which urbanization increasing metros coming into the cities. So these are the 2 broad segments within that sector.

And let me start with the metros; and metros, we are strongly positioned there and we have been working with our customers to ensure that we offer not just the bearing, but the entire sub assembly with the axle boxes and we are been doing pretty good business in that direction. One

other application on the metro trains are the traction motors and wherein especially coated bearing is required, and we are one of the pioneers to do manufacturing this product locally in India.

And we continue to do well there. We are trying to augment capacities there as well, looking at the growth in the railway sector. Talk about the Indian Railways itself -- we are pretty well positioned in the passenger vehicle application as such. That is where the Vande Bharat and the LHB coaches coming. We have developed products; field trails are getting concluded with the customer. And we will be starting seeing supplies into that effect. We have already made the investment for the production.

And we also will continue our localization of some of the products still come from Europe. And clearly, we have plans to localize them as well as the momentum picks up. On the freight train, the challenge there is it's very cost-driven segment within the railway sector. And there, we currently do not have a good product, but then we hope to come up with a new design, which is going to certainly get us to play a stronger gain within that freight wagon application.

Sandeep Tulsiyan Got it. And overall, how big it would be sale rate as a percentage of our sales today?

Harsha Kadam: Overall, at sharper India level, about 4% to 5% would be the number.

Sandeep Tulsiyan And second question, sir, is on the e-mobility order win that you have highlighted that this was a systems order. If you could also just explain it in a similar way, what are components go into it on a per passenger vehicle basis per -- I'm assuming this is for the EV and not plug in. What is the content per vehicle for the entire systems that we are supplying? And within that entire value of the equipment, how much is done in-house and what is being traded or bought out from other companies over there? If you could broadly just pick up to give us a better understanding.

Harsha Kadam: So, the product I talked about for the system-level products for the passenger vehicle is the 3 in 1 e-axle system, which entails first on electric motor and then the gear box to go with a couple with motor. And then we, of course, have the power electronics unit.

What is Schaeffler offering is the electric motor, which is our own design of the motor and the gearbox. The power electronics, we are working with a partner who is going to give us the power electronics, which is customized to suit the motor and the axle, the gear box that we are offering. So as Schaeffler, we are offering this 3 in 1 e-axle to the customer. That's what it is right now. And the start of production is still some distance away, which is, I guess, in 2024. And right now, we are at a stage where the designs are almost getting frozen, and we will be moving to proto type stage.

Sandeep Tulsiyan: What will the value per vehicle of this entire system broadly, if you could just give us a range to understand?

Harsha Kadam: Yes, I had shared this in my earlier investor call as well. When we start to get into the system level offering, our content per vehicle easily is going to more than double, and earlier with IC engines our content per vehicle used to be in the range of 30s and we then further upped it with

the demanding applications coming in the IC engines to mid-40s. But I would say that with the EVs coming in -- our content per vehicle is on set to double.

Sandeep Tulsiyan: So maybe around EUR 60 to EUR 70 per vehicle is well to double in, is that. Okay.

Moderator: Ladies and gentlemen, due to time constraint, that will be the last question. I now 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 questions, please do reach out to me at gauri.kanikar@schaeffler.com. Thank you, and have a good day.

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

(This document has been edited for improving readability)

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