SCHAEFFLER

"Schaeffler India Limited Q1 CY24 Earnings Conference Call"

April 26, 2024

SCHAEFFLER

MANAGEMENT: **MR. HARSHA KADAM – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER**
MS. HARDEVI VAZIRANI – DIRECTOR, FINANCE & CHIEF FINANCIAL OFFICER

Moderator: Ladies and Gentlemen, Good Day and Welcome to Schaeffler India Limited Q1 CY'24 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

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

Gauri Kanikar: Good Morning, everyone. Welcome to Schaeffler India Limited's earnings conference call for the first quarter ended 31st March 2024.

We have with us from the management today, Mr. Harsha Kadam, our Managing Director and Chief Executive Officer, and Ms. Hardevi Vazirani, our Director - Finance and Chief Financial Officer.

Mr. Kadam will first take us through a short presentation on the results, after which we can open the floor for questions.

Thank you and over to you, Mr. Kadam.

Harsha Kadam: Good Morning. This is Harsha Kadam and along with me is my CFO here.

I would like to take you briefly through my presentation now:

So, I move to Slide #2. As always, I would like to start by sharing some good news and in the first quarter of 2024, we were recognized by our customers for the exemplary customer-centricity that we demonstrate both in terms of our service level to our customers as well as value add to our customers. The first customer that we were recognized was TAFE, one of the largest tractor manufacturers and here the award was in the transmission application for the double and the single clutch products that we developed for them, and which have been successfully now productionized. This is an esteemed customer for us and winning the “Best Supplier Award” from TAFE means a lot to Schaeffler India.

The second award has been bestowed on us by “John Deere.” And I am proud to say that this is the fifth year in succession that we have continuously won the award from John Deere, and this is a “Partnership Award for Quality and Technology Support.” We actively engage and work with John Deere for their tractor application. Here again, the product involved was the double clutch as well as the long travel dampers that are used in the tractor applications and we were recognized for the sustained service and support that we have rendered during last year.

The third award that I'm proud to share is from the area of our work that we do on corporate social responsibility. We as an organization stand committed to not just play a philanthropic role, but actively involve and engage ourselves in the CSR activities that we drive, and one such initiative for which we have now got the recognition is the “Best Skill Development Program” that we have been running in our center, called the “Step Center” wherein we actively engage the rural youth and put them through training programs for gaining technical skills in the areas of CNC, turning, milling and even mechatronics and thereby prepare them for employment opportunities.

Last year, over 1,000 youths have participated in this program and with 80% of them successfully securing placements with compellingly good salaries, I must say, and UBS Forums recognized this CSR initiative from Schaeffler India as one of the Best Skill Development Programs that the corporate is running in the country.

Having covered this, I would now move on to the agenda for today. I would touch briefly on the economic and the industry situation, after which I will take you through the business performance and the highlights for the first quarter and also then move on to the financial performance of the Company in the first quarter.

That said, let me now take you through the economy. I move to the next slide. Now, talking of the GDP growth in the country, as you can see in the first quarter of 2024, the estimated or projected growth in GDP stands at 7.2%, which is definitely supported by moderating inflation as well as the demand that is driving in the domestic market. Both the manufacturing and the service sector seem to be prepped up and doing fairly well. But that said, the Reserve Bank of India (RBI) too projects close to 7% for the fiscal year '24-25 and they have revised from their previous projections of 6.6% to 7%.

And when one looks at the index of industrial production as well, as you can see here, the healthy run on the metal products as well as the transportation and the manufacturing sector all put together, the manufacturing in the food products, beverages, even rubbers and plastics, have all demonstrated double-digit growth rates, including the mining, which was about 8% growth, talk about manufacturing, that posted about 5% growth and electricity or energy production was 7% growth.

One looks at the inflation. Well, while the inflation has moderated, the overall food inflation still remains high at 7.7 compared with last year, although the projections by the RBI are that the inflations would be tethered down to about 5% and try and get them down over the next three to four quarters below 5%, we will have to wait and watch for that.

On the automotive production front, overall production growth was about 5.2% in the first quarter of the year, and this came on the back of a strong growth in the passenger vehicles business as well as the light commercial vehicles. However, the medium and heavy commercial vehicles, which I will talk in a while as well as the tractors, showed a degrowth or a flattened performance compared to the previous quarters.

I move to the next slide where I'm going to talk about some of the core sector performances. As the data is available only for January and February, I would cover only the two months, but as you can see again, the core industry sectors, the cement sector has grown close to 8% compared to the same period last year; steel production as well is on the positive side with 8.6% growth, talk about coal production, which is close to 11% and as I already touched upon, electricity generation is up by 6%, all indicating the strong manufacturing activity and industrial activity. Now, that said, as you can see the weightage in the sectors on the right side correspondingly also determines the impact on the growth rates in the country.

I now move to the next slide and talk a little bit on the segments within the automotive sector and let me start with the two and three wheelers:

This is one sector that has shown a very strong rebound and as you can see it's a clear 25.6% growth compared to the same quarter last year and consistently this has been in the last year a muted performance in this sector, which has now started to bounce back very strongly.

Take a look at the passenger vehicles: here again you will find a strong double-digit growth close to 11% compared to the same quarter last year, clearly riding on the back of the strong demand for the SUV segment within the passenger vehicles doing much, much better than any of the other hatchbacks or the sedans.

Coming to the commercial vehicles sector: what you see here is a steady performance. We have not seen a degrowth though. Hope this is the bottoming out of the commercial vehicles sector. However, our performance itself has been a little muted in this sector as the sector itself has been down, I will come to that in a while.

Move on to the tractor segment, the agricultural tractor has always been in the last four quarters consistently lower, and here again this quarter too it was 15% lower in the same period last year.

Now that said, I move to the next slide to touch upon the business highlights for the first quarter. Before I get into the business highlights, I would like to move on and talk a little bit about a restructuring that we have carried out in the organization.

Globally, Schaeffler has restructured the divisions which we were having three divisions earlier, have now been split into four divisions. Now, why has this been done? Considering or emergence into the electric mobility play, it has become relevant and important for us to create a new business division called E-Mobility, which you see there on the slide. Accordingly, the other three business divisions have been now restructured and renamed. The earlier, Automotive Division is now split into E-Mobility as one of the vertical divisions and then the Powertrain and

Chassis as the second division. And the automotive aftermarket division, which was there is now renamed as “Vehicle Lifetime Solutions”.

The Industrial Division, which was earlier there, is now renamed as “Bearings and Industrial Solutions”. Now, in the process, it was not just about renaming the industrial. What we have done is, all the bearing businesses which were there even in the automotive, be it the plant and machinery or the employees have all been reallocated under the industrial division. So, that said, henceforth, we will be having now the measurement parameters pertaining to four divisions – E-Mobility, Powertrain Chassis, Vehicle Lifetime Solutions, Bearing and Industrial Solutions. And this new structure has come into effect from the 1st of April 2024. While this has been done, these four divisions would continue to operate across all the four regions where we operate in as you can see in the diagram and also it cuts through all the functions. So, this is our target operating model going forward. So, two changes; one is the creation of the E-Mobility as a new division and second is the transfer of the bearings business, which is in the automotive also under the industrial part of the business. Accordingly, the disclosures in the quarterly results also have been reinstated in a segmented way.

Now let me move on to talk about the performance for the first quarter 2024:

While we still did face some headwinds and challenges in the marketplace, we have been able to post robust performance year-on-year growth, as you can see in the domestic Indian market, our growth was 12.4%, and this has come from across sectors, barring a couple of sectors which I will talk about.

The margins remain resilience primarily because of the clear focus that we have kept in terms of our activities that we drive to manage our operating costs as well as ensuring that we continue to secure new business wins and try and manage the mix of the business portfolio that we operate in.

So, the first quarter of 2024, we have been able to deliver INR 1,849 crores, and that is a clear 9.2% growth compared to Q1’2023. While if one were to compare it with the preceding quarter Q4, more or less it remains the same, it's a flat development in this quarter. This has translated into an EBITDA of INR 338.8 crores and the EBITDA margin at 18.3% and when compared to the preceding quarter being at 17.9%, resulting into a profit after tax of INR 227.7 crores and thereby delivering a 12.3% PAT in the first quarter, comparatively 11.7% which was there in the preceding quarter.

We did have some challenges on the free cash flow. As you can see here, we have delivered a negative cash flow of INR 25.6 crores, which if one were to compare to last quarter, it was a whopping INR 177 crores coming in, in Q4’2023 and it was INR 3 crores compared to Q1’2023. Now that said, we have always seen the first quarter will have a muted free cash flow numbers and the entire focus is to recover the situation in the coming quarters, and we stand committed to ensuring that we get it back on track.

Our working capital has been in the reasonable range, which I will talk in a while. And while we have been able to sustain the top line and the bottom-line numbers in this quarter, our consistent effort is to see how we can better it in the second quarter of this year.

With that I move to the next slide. Our continuity in the business, ensuring that we are able to sustain the top line growth in spite of the headwinds is possible because of all the new business wins that we continue to keep striving to win. Whether it is in the Automotive Technologies space where we have been consistently launching new products and solutions, addressing the reliability and the emission reduction needs of our customers and we have ensured that we have garnered our new business wins, particularly in our transmission business both in the commercial vehicles as well as in the passenger vehicles segments here, as you can see, a number of wins are coming in the commercial vehicles sector for us.

Talk about Vehicle Lifetime Solutions where we are further expanding our coverage in terms of our reach as well as in terms of more traded products that we want to add to our portfolio, I'm happy and proud to say that we have added a few more products such as the coolants for the engines as well as the new category of grease that we have brought into the market as well and some more product and extensions when we come to the front end auxiliary drives or the timing kits in the passenger vehicles segment. So, our continued portfolio expansion in the vehicle lifetime solutions is paying dividends for us, and we will continue to keep the focus and drive in adding new products to win new businesses here.

Moving on to the Industrial Bearings and Industrial Solutions, here again, we have been focusing on leveraging the acquisitions that Schaeffler has made at a group level and I'm happy to share here that we have won some new businesses, particularly in some specific high engineered sectors such as the industrial automation sector, which is the machine tool industry which would call for very high precision gearboxes which are required in these applications and we have managed to secure new business wins here. Of course, on our foundation products which is bearings as well, we have won some new businesses on the Vande Bharat trains in the railways sector for our cylindrical roller and tapper roller bearings as such.

I move on to the financial highlights now. As you can see, our revenue from operations in the first quarter was INR 1,849.2 crores, which is a clear 9.2% growth compared to the first quarter of 2023. But when compared to the preceding quarter, I did already talk about it, was at the similar level as the last quarter.

So, where has this come from? And as you can see here, the Automotive Technologies has contributed almost INR 56 crores compared to the last quarter, better performance and the Vehicle Lifetime Solutions too has brought in about INR 14 crores and Industrial has brought in strong INR107 crores additional coming in which takes the revenue from the operations up from INR 1,693 crores of Q1'23 to INR 2,849 crores.

Although exports on the other hand, we have seen a bit of a drop when compared to the first quarter as you can see, we have lost INR 20 crores on the export market predominantly because of the sluggish demand from the western sectors, which is mostly on the European market as well as the Asian market.

So, overall, our year-on-year growth has been robust and in the domestic business within India, we have done 12.4% better than the last year, but quarter-on-quarter, definitely we still have to push hard, push forward to keep sustain this growth momentum as we see it.

So, accordingly, when it is split between the four new restructured divisions, what you see is the Automotive Technologies has grown 4.8% in the first quarter over the preceding quarter and 9.1% better when compared to Q1'23.

Vehicle Lifetime Solutions, this is a cyclical business, and the first quarter will always be lower when compared to the preceding quarter. The Q4 is always the highest business, and hence has registered 13.2% lower numbers than Q4, but when compared to Q1'23 as you can see for 9.7% better performance.

Talk of the Bearings and Industrial Solutions, here again, over the preceding quarter, we have seen a drop of 6.3%, but compared to Q1 2023, we have grown by almost 16%.

The export business, as we saw surprisingly has started to show some uptick in the first quarter. When compared to the preceding quarter, our export business grew by 19.6% in this quarter, but compared to last year, we are still down by 7.6%.

With the restructuring that we have already effected, you will see that the business pile has now moved more in the Bearings and Industrial Solutions, which is garnering about 42% of the total revenue, Automotive Technologies is about 35%, Exports continues to be around 14% and Vehicle Lifetime Solutions is about 9%.

That said, I moved to the earnings quality. So, our EBITDA, as I already mentioned, we were able to deliver INR 338.8 crores in the quarter, registering 18.3%, which was shade below compared to last year; however, when we look at absolute numbers, we have grown 4.9% compared to last year and 1.8% better than the preceding quarter as such.

So, that said, where has this EBITDA come from? Obviously, the gross margins have improved, and while we did have some adverse impact coming on expenses and other income areas, and some of the employee costs, which as a result of the wage agreements that we have done and the performance increments that we have given, so, that has come in and impacted our EBITDA earnings as such.

So, the year-on-year earnings moderated marginally, but however, we still have the strong fundamentals in place, and when one were to look at the profit after tax, you can see that we were able to close the quarter with INR 227.7 crores in the quarter, registering a 12.3% PAT which definitely was a little below compared to the 13% that we gave in the first quarter of 2023. However, in absolute number, we have grown 3.8% better than last year and 4.4% better than the preceding quarter.

I move to the next slide and here again our working capital went up to INR 1,352 crores in the quarter, which was an increase compared to the Q1, but however we believe that with demand that we see coming in from many of these sectors recovering, we believe that this kind of inventory need to be there to service our customer needs, and this is an optimum level of working capital that we would definitely want to operate with in the 17% to 19% range, and we will continue to keep hold our working capital around this.

Now that said, talk about the CAPEX, we have been consistently investing over the last few years in ensuring that we continue to localize a lot of our production in India and increase our localization content. And clearly in line with that strategy, even in this quarter, we have been able to invest INR 173 crores as against INR 118 crores in the same period last year. This has taken our CAPEX as a percentage-to-sales to 7%.

And I did already talk about the free cash flow. Yes, we did have some challenges on the free cash flow, but then this is the normal start of the year, the first quarter always registers the lower free cash flow, and the similar picture was there even in last year first quarter. However, we are now keeping the focus to say, can we bring in some consistent performance quarter-on-quarter in the free cash flow as well.

Now that said, I move to the next slide, which is more on performance indicators. And to sum it up, as you can see, while we have registered on the top line a 9.2% growth compared to last year, our performance with the preceding quarter has been flattish, delivering an EBITDA of INR 338.8 crores, resulting in a margin of 18.3%. And with all the investments that we have been making in as well as the depreciation impacts that have started to come in, we were able to deliver an EBIT margin of 15.1% and bring in an EBT of INR 305 crores as such.

The profit of the tax, I did already talk about, is 12.3% margin that we have delivered. We continue to sustain our CAPEX investments, although we are judicious in terms of where we are investing. We are continuously monitoring the market even on the export side and we have been judicious and prudent in making our investments in the right portfolio of products as such.

Free cash flow I have already touched upon, and I move to the next slide. So, the consolidated financial results, this slide shows about the consolidated picture including the Koovers acquisition that we made last year. Koovers, as you all know or KRSV Innovative Auto Solutions Private Limited as you all know, is a subsidiary of Schaeffler India Limited, this is a B-to-B e-commerce platform, and this was a strategic move that, as Scheffler India, we decided to get on to in our Vehicle Lifetime Solutions market space. And so KRSV as you see has posted a revenue of 24.6% in the first quarter, while the financial parameters of EBITDA, EBIT and the EBT are still negative as we are right now in the ramp-up mode by way of expanding the footprint of Koovers Pan-India, we have started to now move into the West and the Northern region. Predominantly when we acquired the company, this was focused only in the southern part of India, more so in Bangalore and Chennai, and now we have started to expand the footprint aggressively. So, very soon we will be able to see the positive results coming out here as well.

So, as a consolidated unit, Schaeffler India Limited, we have been able to close the quarter with INR 1,873 crores on the revenue and our EBITDA stands at 17.8% consolidated, with an EBIT before exceptional items as you can see is 14.5% and earnings before taxes also at 15.9%.

I move to the last slide and to summarize, we have invested in the right foundation products in India and are also continuing to invest in the emerging sectors in India and the testimony of that is also our focus on the market and our customer-centric approach which clearly is helping us to continue to sustain the growth momentum in the domestic market in India.

Exports, on the other hand, we did see challenges and headwinds in the preceding quarters. However, in this quarter, we do see some rebound. We will have to watch cautiously and watch it for a couple of other quarters, the next few quarters will tell us how the export is going to fair.

Our sustained quality earnings in the measures that we have put already and more that we will be putting, ensures that we continue to sustain to deliver the profitability story of Schaeffler India to all of stakeholders.

And the operating metrics continue to remain. Our CAPEX commitment continues to be there. However, we will be more cautious and judicious in terms of being agile in our investment decisions going forward. But the strategy of investing to grow and localize more in India is still strong and on the right track, I must say.

So, with this, we will continue to stay optimistic, yet be cautious and be more agile, continue to show the resilience that my team has demonstrated so far, and although the market is very volatile and uncertain, but certainly, we will try to play the game more smartly going forward as well.

With that, I conclude my presentation. Over to you.

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

Mukesh Saraf: My first question is on exports. You did mention that you were surprised with the kind of pick up in the first quarter. So, yes, there has been sequential. Could you give some more color on how do you see going ahead the ramp up in exports to be?

Hardevi Vazirani So, the question is if I heard it correctly, it was on exports?

Mukesh Saraf: That's right. So, the question is just on the visibility that you have going ahead because there has been a sequential improvement, but you also mentioned in the opening remarks, it was surprising the improvement. So, just like something that we can expect will continue to improve from here, how do we look at?

Hardevi Vazirani If we look at exports then Q1'2024 vis-à-vis Q4, we saw a more than 10% rebound, and this came from all the regions. Of course, one thing is that the stocks that Europe was consuming have reached optimum level and thereby they have started placing the orders now, but at the same time there were some efforts put in by the management to acquire Asia Pacific market where we have also faired quite well. All in all, the response from all the regions was better than Q4.

Mukesh Saraf: So, we can expect kind of this sequential improvement to continue from here on?

Hardevi Vazirani So, the order book looks promising at this point of time. We plan to maintain the average through the year.

Mukesh Saraf: And secondly, on the e-axle order that we have already, you give some sense on this year sometimes we are expecting the business to start there. So, if you can some timeline there?

Harsha Kadam: On the e-axle business, what I can say is that the project is progressing very well with our customer, and it is according to the timelines that we have committed, yes. Rightfully, our phased investments also is on track. And as the situation progresses, we will definitely start to bring in our localization strategy as well and start to implement. Some actions towards localizing partly our production lines have also started to be now effected. But as I said, I cannot share more details on the project, but then nevertheless we are on track.

Mukesh Saraf: Under the mobility solutions, se have the industrial bearings there. So, I mean, does that include only railways tractors, because it's split under mobility and others, just trying to understand what is the -?

Harsha Kadam: I just wanted to correct you that the new division that is created is called electric mobility, which is purely for the electric mobility on road. Yes. So, the Railway as a sector continues to remain under the Industrial division and which is now, we are calling it the Bearing and Industrial solutions, it's going to remain there. So, there has been no deduction or changes within the erstwhile industrial division, there has been only an addition and that's the bearings business, which was in automotive, has now come under the industrial part.

Mukesh Saraf: So, in the stock exchange release, the segmental revenue, there is something called as mobility components and related solutions, and then there's something called others as well. In each of these you have these four sub-segments. So, just wanting to understand what are the differences there?

Harsha Kadam: Mukesh, the way it has been shown here is mobility components and related solutions. But if you see below that all the four businesses which we track is already there.

Mukesh Saraf: And then below that there's others and in there again, there is bearings and industrial solutions and then the company exports. I think it gets totaled up into the third segment. Never mind, sir. I'll probably take it offline.

Hardevi Vazirani No, no, no, I can answer this right away. So, if we see mobility components, it is all linked to passenger vehicles, tractors, railways and so on. But other than that, our sectors like wind, power transmission, industrial distribution, that falls under others. So, everything that is related to mobility is in in Category-A and rest all sectors are in Category-B.

Mukesh Saraf: I will probably take it offline.

Moderator: Next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: My first question is on the wind sector. So, you did mention last time CY'23 had seen because the exports from India was pretty much sluggish. So, can you think that in CY’24 we can reach back to those CY'22 levels? And what is the share of wind as a portion of overall our revenues at the moment?

Hardevi Vazirani Before Harsha talks on the business aspect of when, let me clarify that when we talk about our exports, it does not have the wind portion, we sell to the wind producers in India who in turn export to Europe and other countries. So, when we sell them, it is still domestic sales. Our export is not directly towards wind, we sell domestically to the wind producers, and they export it.

Harsha Kadam: So, to your question on the business progression, first thing is there are two parts to the business. One is the domestic demand for wind equipments and second is our customers manufacturing in India and exporting. So, in the total business, 80% to 85% is exported out of the country by our customers, correct? So, the domestic demand continues to be stable… has been stable in the past. It was the export business that was down and over the last few quarters we saw that. Coming into Q1’2024, what we have seen is a very strong uptick compared to the Q1’2023; if we go back four quarters, we have seen a very strong uptick, almost 70% growth in demand we have seen come back. Now, if one were to do a little deep dive and look at, there are two applications that go into the wind; one is the equipment itself; and second is the gearbox manufacturers. What we are seeing is a very strong demand coming back from the gearbox manufacturers. The wind equipments has improved but not at the same pace as the gearbox manufacturers. So, I must say that we are beginning to see strong demand for gearbox that are getting exported out of the country as of now. Hopefully, the wind equipments too would start to make a strong recovery as we are seeing in the gearbox.

Harshit Patel: My second question is on the pricing. Could you give us a little bit of lever on bearings pricing both in the automotive as well as industrial bearings -- have we taken any price cuts in the past one year or so because the commodity inflation has pretty much stabilized vis-à-vis what it was let's say one and a half to two years ago?

Harsha Kadam: Pricing is always on a comparative level. That's the first point I want to make. It's related. Second is, yes, you're right, the commodity prices have stabilized, and our pricing is always linked to the commodity price movement and so our contractual agreements with the customers are always linked with the price of the commodities at the global level. So, that said, if the prices would have gone up, certainly we would try and recover those prices from our customers. But if the prices were to go down as well, we would have to pass on the benefits. I don't have the details of where we have given or where we have taken. But what I can say is it is very well sequentiated with the commodity price movements and we continue to operate in that manner, this applies to all suppliers who are in the automotive and the industrial.

Harshit Patel: I understand that you have to pass on those benefits to your large institutional customers, the B2B contracts that you might have. But do you also have to pass on these even in the aftermarket?

Harsha Kadam: No, aftermarket, we do not pass on. Aftermarket invariably to cover the inflationary increases, we do increase prices. All component manufacturers increase the price every year and the automotive aftermarkets and the industrial aftermarkets is the only sectors where we follow this rule to increase the prices every year unless it is a strategic approach not to increase the prices by the organization.

Harshit Patel: Just last one bookkeeping question. In the vehicle aftermarket solutions segment, are there still bearings or these bearings have also moved to that newly created segment, which is bearings and industrial segments?

Harsha Kadam: So, the vehicle lifetime solutions will continue to sell bearings, they will continue to sell every other product as well. Only the manufacturing has moved under the industrial side. So, nothing changes as far as the external customer is concerned. It is an internal restructuring that we have done and it's just a reallocation of the team, the plant and machinery into industrial. So, that's the only change, but otherwise from an external perspective everything remains the same.

Moderator: Next question is from the line of Pradeep Bijlani from Union AMC. Please go ahead.

Pradeep Bijlani: I have two questions. Firstly, on the export side, so you called out that the wind sector is largely not part of exports and that is part of industrial, but we are seeing very strong order book. So, can you call out what is the segment as in we largely have PV, so where are we seeing that growth whether in the North American region or the European region, if you can give a little bit more flavor on that part?

Hardevi Vazirani: If we see our performance on exports, Q1 vis-à-vis Q4 of last year, that is quarter-on-quarter, we have seen the uptick from all the markets, Europe, America, Asia Pacific, also China, we have seen order book improving. While for the other regions, specifically Europe, which is the main contributor to our export's revenue, stocks have been optimized at their level, so order book is coming in, but at the same time, management had put conscious efforts to get new order book from Asia Pacific, which has contributed to this increase.

Pradeep Bijlani: The other question which I had was related to the Vitesco merger which is done at the global level. So, from what we understand, Vitesco also has an India entity and we as Schaeffler have maintained one Schaeffler policy. So, do you have any visibility as to what would happen to the Vitesco entity and the Schaeffler India entity, how are you thinking about that, and if any timelines as such with the management who want to give out?

Harsha Kadam: First, the name of the company is Vitesco, and this globally is a strategic acquisition for Schaeffler fundamentally because as we are venturing more and more into the electric vehicles' technology space. The critical part of electric vehicle technology is power electronics and that is where Vitesco's competence brings in a lot of value for Schaeffler. Hence, strategically this global acquisition. That said, in India too, Vitesco is present as a private limited company, and right now, as I'm speaking, we are evaluating the functional integration of Vitesco into the Schaeffler portfolio. However, the full integration of Vitesco within the Schaeffler India Limited listed entity would take some more time as we will have to do a thorough due diligence as well as do a lot of groundwork before we venture in that direction and as of now, I'm not in a position to reveal the time plan for this.

Moderator: Next question is from the line of Pramod Amthe from InCred Equities. Please go ahead.

Pramod Amthe: So, the first question is wanted to get your perspective on the railways segment in detail about new range. How is the pricing scenario there in the current situation? We understand the opportunity is pretty large but there are incumbents who are there versus you entering into that segment. So, how do you see the pricing scenario when you have won these new contracts?

Harsha Kadam: So, let me give a background and then probably I can try and answer the question. So, the earlier model with which the Indian Railways operated was, they were issuing tenders for whether it is the wagon, whether it's a locomotive, with all the divisions they have geographically, and the manufacturing units they have, each were independently issuing tenders and one had to bid and compete in the tenders. With a lot of privatizations happening now, particularly on the wagons, we are already seeing the wagon manufacturing is now being privatized. We see a different approach with the private manufacturers now. So, we see less of tendering, but more of technological discussions and engaging with suppliers from a partnership perspective and that's beginning to happen now. But has it completely changed in railways? Not yet. It's beginning to happen. So, this is the first transformation we have already seen. So, what does this mean to players like us? For one, it means that we can offer better value solutions and products to the customers. As now with privatization and modernization both going hand-in-hand, the demand for better value products is definitely going to be there and we are strongly positioned and competent with all the capabilities, the investments, the manufacturing footprint that we have put in place for railways to compete in a better way. So, that is the big change that is happening. Rightfully, yes, there are four or five players in India who compete within this railways. But as you know, railways is a growing business and very relevant for our play of things and we have our portfolio of products where we are strong and as the railways get modernized and they raise performance level, we strongly believe we have portfolio which can compete in those new applications that are already there. So, coming to pricing, I am not able to answer it precisely as to what do you mean by pricing, but the model is transforming there, and we believe that we are able to now start to play strongly in the railways sector as well.

Pramod Amthe: The second question is with regard to the new products you talked about in the annual report. There seems to be like almost 10 new products which you plan to introduce per se. Wanted to know amongst these, what are the big ones to look forward in terms of addressable market or in terms of making the influence on your revenue in the next two, three years perspective?

Harsha Kadam: See, our strategy in the market is, if you take the automotive market, IC engines will still continue to grow, albeit at a lower CAGR growth rate, but then there is still definitely demand for IC engines. So, our investments in that direction to manufacture those products will continue and hence we will continuously pursue the market for new business wins on those existing portfolio. The second is, we will continue to upgrade our existing products to meet with the changing regulatory norms that are coming up, the new CAFE norms, or for that matter, if Bharat Stage 7 were to come in. Yes. So, we are now building up the engineering competency as well to stay competitive there. On the other hand, with the emerging technology like electric vehicles as well, we continue to invest there both in terms of competence development as well as phased manner localization as the market is beginning to pick up more and more electric cars are produced in the country, we already have a business win and we are now pursuing other new opportunities there. So, there will be new business wins even on the electric vehicles' technology space as well. So, rightfully said if you are going to ask me which is the big ticket one? Well, I would say both on the automotive side and the e-mobility side we have big wins. So, cumulatively, we will continue to pursue, and we will continue to make business wins. Even on the industrial side for that matter, with so much infrastructure growth that is happening or core industrial sector customers are investing in new capacities and new greenfield projects, so there again, we continue to produce the existing products more and service their requirements as such. So, clearly, wherever the opportunity is there, we believe that there is a growth opportunity, Schaeffler would continue to focus and continue to invest.

Moderator: Next question is from the line of Mahesh Bendre from LIC Mutual Fund. Please go ahead.

Mahesh Bendre: We have been talking about CAPEX of INR 1,500 crores over the next three years. So, we already done CAPEX last year, we are in the midst of that doing that. So, when will this get reflected in the numbers, I mean when this CAPEX that we're putting into factories, will start reflecting in our sales?

Hardevi Vazirani So, partially, it is already reflecting. It is reflecting because the investment is not only into the into the capacity, investment is in setting up of new plant of Hosur, investment is into backward integration, roller localization in Savli. So, there are many things which are done to do the localization of finished products. So, we are already selling those products in the market from imported sources. When we localize, we are now selling from within our plant. Sales does not necessarily increase or when we do backward integration, the parts are available easily within the local market. So, there are several topics within those investments of INR 1,500 crores which are not directly always linked to increase in sales, but yes, we can say that significant amount is towards that. So, some part we already see that it started impacting and that is the reason you see that the company is able to sustain the margins despite inflationary pressure of over 8% that the margins are maintained, because localization has been done for the child parts, etc., So, CAPEX is to be seen in those categories and you will see that increasingly when the market comes back in tractor, commercial vehicles, you will see those effects coming in.

Mahesh Bendre: So, you mean to say that the CAPEX will start influencing our operating margins maybe because a lot more things we were importing will get produced in our factories now?

Hardevi Vazirani So, it is already impacting and that's why see we are able to sustain our EBITDA margins close to 18% despite having last year inflation averaged above 7% in the prices, personnel cost, fuel, etc., but we still registered EBITDA margin over 18%, and this is all possible because there are several measures in those directions.

Mahesh Bendre: Out of our total sales, how much is from the aftermarket, both including auto and industrial?

Hardevi Vazirani So, Vehicle Lifetime Solutions, we already showed; from the domestic sales it's close to 10%, the similar would be in industrial distribution.

Moderator: Next question is from the line of Saif Gujar from ICICI Prudential AMC. Please go ahead.

Saif Gujar: Can you share where are we on the Hosur plant?

Harsha Kadam: As you know, last year we had started off the year by laying the foundation stone for the greenfield project construction. As I'm speaking now, the first hall construction is underway. Last month, me and the entire leadership team were there to assess the status of progress and I must say that we are on track. So, once the hall and the building is completed, the machines would start to roll in as well. So, as we are going to set up some new machines would come in and some would be moved from our existing location to create more space in the older plant as well, so that you we will start expectedly next year to start to produce from this plant. So, all in all, we expect by the end of this year the entire project to be completed.

Moderator: Next question is from the line of Salil Desai from Marcellus Investment Managers. Please go ahead.

Salil Desai: When you mentioned that new extra efforts were made to increase the exports in Asia Pacific, can you explain a little detail what these efforts are in the sense, do you need to put marketing teams there or do you need to talk to the group and make a case for sourcing it from India?

Hardevi Vazirani So, as you know that sub-region India is a part of region Asia Pacific, there are ongoing discussions with Asia Pacific management board on the order book situation, and in Asia Pacific, we are present in 11 countries where in Southeast Asia, there are seven countries and the markets like Indonesia, Philippines, Malaysia, Thailand or even Korea, these all are part of Asia Pacific. So, the management boards of those respective companies are in the common meetings where we drop the action and the respective colleagues from the industrial division in those countries, they put extra effort to get us the order book. And also, that the Southeast Asia countries, we don't have many plants who produce the products that we produce, so they import from us.

Salil Desai: This would be kind of a more sustainable source of exports for you, it's not a one-time win. Is that understanding right?

Hardevi Vazirani That's what we are trying to do.

Moderator: Next question is from the line of Muksh Mandalay Shah from Anand Rathi. Please go ahead.

Mumuksh Mandlesha : Industrials and bearings have seen a good 15% growth on a YoY basis and if we look at Q4 quarter which is 5% growth. So, from which sectors we have seen much better growth this quarter? And also, just to add on aftermarket, we have seen a 10% growth in sub-sectors or products you mentioned which has seen good growth in aftermarket as well?

Harsha Kadam: So, let me take the industrial part first. So, a couple of sectors that we have seen strong demand coming up in the first quarter, one, obviously wind, we already talked about it, the second one is the two wheelers which we classify under the industrial division, and here again as you know the two-wheeler business bounced back with double digit production growth rates happening in the country. We've also seen a strong demand coming in the power transmission sector, which is fundamentally the gearboxes as well as electric motors that are manufactured in the country. So, these were some of the large. Of course, we did see also from the cement and the steel sector good demand coming back, although not as high as it was when compared to the two wheelers and the wind. The wind and the two wheelers have been the strongest growth for us in this quarter. And coming to the second part of the question that is on the Vehicle Lifetime Solutions, well, while it appears that we have done better when compared to Q1'2023, but the first quarter of every year is always a low start for the Automotive Aftermarket or Vehicle Lifetime Solutions as we call it. But surely, with the vehicle parc numbers increasing in the market, the demand for the after-market products also is going up. Hence, strategically one of the reasons we also resorted to acquiring the B-to-B e-commerce platform exactly to facilitate the growth story of the Vehicle Lifetime Solutions products there.

Mumuksh Mandlesha: So, fair to say in vehicle lifetime solutions, broadly, the growth has come across the product lines and sub-segments?

Harsha Kadam: Yes. Also, what's also happening is the transition of BS-IV to BS-VI, which happened in 2020, now you will see more and more vehicles of BS-VI coming back for repairs and hence our portfolio of products, we have been proactively developing and now keeping them ready. We have been able to service those vehicles that come back with BS-VI technology. So, our product offering was also made ready and hence we are seeing now the good demand coming for the BS-VI products as well.

Mumuksh Mandlesha: I mean, the upcoming new emission norms like CAFE and BS-VII, how do you see the change in content per vehicle sir there?

Harsha Kadam: The content per vehicle? Yes, rightfully when the BS-IV to BS-VI transition happens, obviously, the value of the product that we are offering is definitely much better as it has to conform and also perform to the new requirements of the new regulations. So, rightfully if BS-VII were to come, yes, we are prepared, and we do have the engineering capabilities to reengineer our existing product to meet the new demands of regulations that do come in. So, we have done that in the past, we will continue to do that going forward in future as well.

Moderator: Next question is from the line of Rishi from Kotak Securities. Please go ahead.

Rishi: Just a little bit more details on the export side of things. While you alluded that we had seen a recovery across geographies, but at least in terms of end consumer segments, if you could comment like which are the important segments for us in terms of exports and where we are seeing some green shoots at least on a sequential basis, so any insights on that would be helpful? And just one bookkeeping question. Any CAPEX number which you would like to put it for CY'24, that would be helpful?

Hardevi Vazirani So, on export, these are our intercompany export, so we supply to our group companies, and they sell it to the end market. The exports are mainly in industrial division, there are some parts in automotive also, but main is industrial division. And your question on CAPEX, as we had committed that in three years, we will do INR 1,500 crores and this is the third year, and we will be keeping our promise.

Rishi: So, despite 1Q number of INR 170 crores, overall full year still would be around INR 500 crores?

Hardevi Vazirani Can be over that, but we don't give the year guidance.

Moderator: The last question will be from Mr. Balasubramanian from Arihant Capital. Please go ahead.

Balasubramanian: Sir, on the localization side, like what kind of subsystem level products we are focusing on in the automotive segments.

Harsha Kadam: I will not be able to give you specifics as to which product lines we are localizing. All I can say is that our consistent effort to continue our investments to localize more and more in India is well on track. Our localization percentage as of Q1 was at 77% and last year it was at around 75%. So, we will continue to localize more and more and now our effort is also on to localize more and more at a component level for the automotive applications where we continue to import some high specialty products from Europe, we definitely want to localize that as well. So, our effort is focused on localizing our purchases that we source from our suppliers outside of India as well. That's a clear focus area for us.

Moderator: Ladies and gentlemen, that was the last question of the day. I now hand the conference over to Ms. Gauri Kanikar. Over to you, ma'am.

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

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

(This document has been edited for improving readability)

Registered Office:
15th Floor, ASTP (Amar Sadanand Tech Park),
Baner, Pune – 411045, Maharashtra
Contact Details:
Investorsupport.IN@schaeffler.com
Website:
www.schaeffler.co.in
CIN: L29130PN1962PLC204515