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"Schaeffler India Limited Q3CY2023 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Schaeffler India Limited Q3 CY2023 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Gauri. Thank you and over to you, ma'am.

Gauri Kanikar: Good afternoon, everyone. Welcome to Schaeffler India Limited's earnings conference call for the third quarter and nine months ended 30th September 2023. We have with us from the management, Mr. Harsha Kadam, our Managing Director and Chief Executive Officer, Mr. Satish Patel, 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: Hello, good afternoon and warm welcome to this earnings call of Q3 and nine months 2023.

Satish Patel: Good afternoon. Satish Patel here. Welcome to this earnings call today. Thank you.

Harsha Kadam: I would like to now take you through a brief presentation for the next few minutes and then we can get into the usual questions and answers.

Let me start with slide #1. I would like to touch upon briefly on the economy and the industry. A little light I would like to share on the business highlight for the third quarter as well as for the nine months ending 2023 and then I would like to move onto the last chapter which is on financial highlights.

Coming to slide #3 on the economy and the indicators and as you can see on the slide India's performance in terms of GDP growth rates have been pretty robust. The provision of Q2 numbers that we have is around 7.8, rightfully all the segment groups are indicating for a strong growth in the country's GDP. Some of the pointers to that effect are sectors such as steel, cement, as well as mining and coal production are all in double-digit growth rates. Talk about the automotive production in the country, the commercial vehicles as well being on a strong growth trajectory with the double-digit growth rate. So, we anticipate that the succeeding quarters as well as strong growth rate in terms of GDP. The dampener, what we see for increase in the inflation rates that is cropping up. The Reserve Bank of India has been containing the inflationary trend growth. Talk about the industrial production and you will find consistently robust performance in terms of growth rates, particularly the August provisional results are indicating for an index of industrial production will be around in the range of 10% - 10.3%.

That said, I move on to the slide #4, which talks about some sectorial performances, starting with the industrial sectors. I would like to throw light upon the cement production in the country as you can see over last year same period year-to-date growth has been in the range of 9%. Steel production has been in the range of around 14%. Coal has been again in the double-digit range at 11.5% and electricity generation has been in the range of around 3% to 4% growth rate. So, the industrial sectors seemed to have done better. I will talk a little bit about the wind sector coming later because we are seeing some recovery in the wind segment, particularly on the back of the improved export business for our customers that is coming back.

I move to slide #5 and would like to talk a little bit about the automotive sector performance. The two and three wheelers have remained flat over a nine-month period as you can see. This quarter was expected for the two-wheeler sector to bounce back in a much robust manner. Well, we will be able to comment on it once the numbers come in, but when you look at the other sectors, the passenger vehicles obviously have posted a strong growth again over last year with 8.6% growth. Commercial vehicles too have posted a reasonable 5% growth. Tractors again has been languishing and as we can see with the numbers month-on-month tractor production in the country has been at the lower level when compared to the same tenure last year as well. So that said some sectors we have seen a mixed bag of improvements and upticks in the demand coming up will be for one the infrastructure industry pushing up the raw materials like steel, cement, they are pushing it up. Going forward, we still have not seen so much traction on the tractor segment and the two-wheeler still continues to remain flat.

I would like to move now to the business highlights and let me start with the slide #7 and for the third quarter, we have been able to show a sustained performance in terms of top line as well as the bottom line. Fundamentally on the back of the automotive technologies, the growth that we have been able to continue to play the game there well and recovery in some of the businesses which I already talked about in the industrial for one thing, the wind as well as the railways, the raw material sector, which has helped us to continue on the growth trajectory. Also, we have been able to sustain our focus on the earnings quality and we have been able to in spite of some of the headwinds that we faced on some of the sector demand. We have been able to sustain our earnings performance, which I will talk about in a while. Where we did see some flattening of demand is on our own export businesses where the focus has been right now to see how we mitigate, and we have some counter measures in place to try and recover the lost opportunities in our export business and this is obviously coming because of the slowing demand due to the economic as well as the geopolitical situation in Europe. That said, when you look at the third quarter performance in terms of our sales growth, we have been able to post 5.2% better sales than the same period last year and 1% or almost flat growth compared to the previous preceding quarter, and we are closed quarter with INR 1,843 crores in terms of sales revenue.

Look at the EBIT margin and we have been able to sustain 16% EBIT margin, which is the same level as it was last year as well bringing in INR 293 crores profits into the company and that leads to a profit after tax of INR 235 crores with the resulting profit after tax margin to 12.7% and we are at the same level as last year which was 13%. One of the areas that we have been able to demonstrate a strong performance is generating more cash and bringing cash into the company. So, we have been able to bring in the third quarter INR 172 crores in terms of cash when compared to the last year same period you will find that it has been strong performance in terms of free cash flow to the 57.6% better than the same period last year.

I move to the next slide, I am on slide #8, talk a little bit about some of the new business wins in the quarter. When I look at the automotive technologies space, we have been able to garner quite a lot of wins in the commercial vehicle space, some of it in the passenger vehicle space as well and the product portfolio which were definitely attributing, some products which are into the next generation of technology which is the hybrid technology. We have the planetary shaft gears; we have the heavy-duty clutches for commercial vehicles as well coming in. So, our focus to continue to generate new businesses continues and this quarter we have been pretty successful in taking a lot of such new product line that we get to a closure. That said, even on our automotive aftermarket space, we have been expanding our market coverage for the traded products that we have launched as well as some of the new products that we have added in the market in terms of the BSVI portfolio. It could be the frontend auxiliary drives or the panel kits, or for that matter the tapper roller bearings that go into the passenger vehicle segment as well. So, we have consistently worked on expanding our reach in the marketplace and that will really make the desired result.

Look at the industrial division performance and there again a number of new business wins in the industrial automation sector, in the railway sector as well as some of it in the two wheeler sector that we have been able to gain new businesses, bringing in a variety of portfolio as you can see in terms of the planetary gear boxes that we make or the linear guides that we make and the insulated coated bearing that we manufacture in India for the railways sector. So, our focus continues to remain on new business wins as we move forward.

I now would like to take you to slide #10 wherein I was going to talk about the revenue from operations and the business mix. So, as you can see quarter-on-quarter we have been consistently growing. Q3 was one of the quarters where our revenue growth was kind of flat at the same level as the preceding quarter. However, when you compare the revenue growth over the same period last year, we have grown about 5.2%. So where is this coming from, and as I said earlier, all the businesses have contributed to this growth story successfully. So, we have INR 559 million coming in from the Automotive Technologies space, INR 172 million coming from the Automotive Aftermarket space and INR 787 million coming in from the Industrial space all in all and I did also mentioned that flattening of demand in our export business and you see that reflected in the number. So, while the rest of the domestic segments were positive. We have had a lower growth story to tell, and we were down almost INR 600 million in the export business. All-in-all resulting to INR 1,848 crores which is a 5.2% better than the same quarter last year. So, with that, we have been able to sustain the growth momentum in the revenues and our business mix has shown a little shift as our export businesses have come down a bit in this quarter. You can see the contribution to the total revenue of export is down to 12%. We have the Automotive Technology at 42% and Automotive Aftermarket which has remained at 9%, Industrial getting in a little more share with the successful wins of new business. We are move to 37% as such.

I was in slide #10 and I thought I will draw your attention to the nine-month performance and as you can see for the nine-month performance except for the industrial segment, industrial business and the exports, both the Automotive Technologies and the Automotive Aftermarket have posted pretty strong double-digit growth rates compared to the nine-month period last year. Industrial, as you all know, we had a very weak demand from the wind sector in the first half of the year, which we see is now coming back gradually. So, we expect the industrial definitely to improve going forward. Exports at this point in time, we will have to wait and watch with the situations that are developing in the western part of the world. We will have to see how the demand pans out. So very difficult to predict at this point in time the demand scenario going forward.

That said, I move to slide #11 and I would like to talk about the earnings quality and as you can see for the Q3 we have been able to sustain a strong performance in spite of the lower revenue growth rates that came into the quarter. So, we ended the quarter Q3 with INR 293 crores resulting an EBIT margin of 15.9% which is a clear 6.4% growth over the previous year same period. Now this has come obviously from a strong improvement in our gross margin and that is something we continue to sustain. The volume drop impact has been kind of negative in terms of the profitability overall though, the export definitely could have brought in better margins. When you look at the profit after tax, again, we have been able to bring in INR 235 crores for the quarter in the profit after tax and that has resulted in a 9.1% better profit margins coming in compared to the same period last year. Now that said, at the nine-month period also if you see the profit after tax, we are in the range of 13%, which is the same that it was last year as well.

I move to the next slide, slide #12, wherein I would like to throw light on the working capital management and what you see here for the nine-month period is working capital as a percentage to sales remain in the range of 18% to 19%, which is the optimum level of working capital that we want to keep it up to ensure better serviceability to the customers as well. When we talk about the capex and the investments that we make, as you can see in the third quarter, we have been able to continue with our investments. We have invested in the third quarter INR 157 crores that is taking the percentage contribution to sales from a level of 7.2% to 7.6% when compared to the preceding quarter. So that said, the free cash flow was one of the good performances in this quarter. As you can see, we have been able to keep the focus on our receivables as well as overdues and we have been able to rake in INR 172 crores into the books for the quarter and this has been a big change compared to the same period, 137% better than the last year same quarter period. So free cash flow generation would continue to remain a key focus area and better working capital management is something that we will stay. Our Capex remain still in line with our strategic framework, and we will continue to keep doing that.

I move to slide #13, which throws a little more light on the key indicators in terms of the performance, as I already said for the quarter. We closed the quarter with the revenue of INR 1848 crores with the revenue growth of 5.2% over the same period last year and quarter-on-quarter almost flat at 1%. The EBITDA margins do remain at 18.9% compared to the same period last year which was around 19% and profit after tax margin as you can see at 12.7% while it was 12.3% in the same period last year. Now that said, I already talked about the free cash flow, all in all with the headwinds that we did face in terms of the export businesses and some sluggish demand in the tractor segments we have continued to keep the focus on our countermeasures with our projects sustained 16 wherein a number of projects that we have been driving to grow the top line and also improve the bottom line. We continue to keep the focus on that, and we have been able to sustain these numbers.

I move to slide #14 and in summary, I would like to touch upon the performance for the quarter was mainly supported by continued growth in the domestic business, what we do in India here while on the export side, we did have challenges, but the domestic business we have been able to do better. The quality of earnings we continue to sustain, again as I already mentioned with the clear focus and drive on a number of actions that we have put in place in terms of countermeasures, whether it is in cost management or playing with the mix in the domestic market. We continue to keep the focus and we have sustained that. We will definitely continue to invest in capacity expansion and as this is a long-term strategy for us and the current situation on slowing export demand what we see is only an interim situation and we hope that the situation is quickly going to recover and so we continue to invest as planned in our strategy. That said, the way forward for us being we would still believe in the optimistic growth story in India, strong demand situations, we see recoveries on many of these sectors, many sectors doing well on the government initiatives on infrastructure growth and that is helping us as well. We do have some challenges on the exports as well as on some sluggish demand from some specific segments within the automotive industry. But I guess with the countermeasures that we are putting in place, we should be able to sustain the performances going forward as well. So, with that, I come to the end of the presentations. Back to you.

Moderator: Thank you very much, Sir. We will now begin with the question-and-answer session. We take the first question from the line of Mukesh Saraf from Avendus Spark. Please go ahead,

Mukesh Saraf: Sir, good evening and thank you for the opportunity. My first question is on the export sales. We have seen exports decline 21% in this quarter. While you did kind of mentioned that there are certain global factors and the weakness that is impacting exports. In some of the previous calls you had also mentioned that we have about a year of an order book, in terms of visibility and also that it is more like a substitute business that we are getting in a business that is basically moving out of getting manufactured and we see a lot of it is getting manufactured in India. So, with these aspects, could you kind of provide us some more visibility on exports and is it just a temporary kind of a weakness until we have capacities coming in or is there something else happening here?

Satish Patel: Let me take your question this way. As far as exports performance for the quarter is concerned, yes, there is a decline and when I compare this quarter versus the immediately preceding quarter, exports declined by about 14% and versus the same quarter last year, decline is close to 20%. Even in the last quarter also there was a decline in export market by about 11%. Then we did mention that we have the conditions in Europe and China, the current economic conditions are actually causing the downfall of the demand from this region and that has continued even for Q3. So, it will be the order position from, and I am talking about the orders which we had to get from Europe and China for deliveries in Q3. Those have been impacted and that is largely causing the decline in the exports. However as far as our long-term strategy and long-term focus with regards to exports, that remains unchanged. Yes, you rightly mentioned, and we had talked in the last call as well that whatever strategic actions we have taken in terms of focusing India for serving the world better in terms of our exports that remains unchanged. In fact, some of those projects are helping to mitigate some of the losses in exports and therefore the decline in export is around 15% or 20% in that range. Had that not happened, this decline would have been even severe and that would have caused a significant dent as well in terms of the overall performance for exports. On the other side, we do expect that this situation may not last too long. Hopefully next year we should be back on track. I once again like to mention and that is what I also mentioned in the last call, that we have to keep also one aspect in mind that last two years we have grown in exports over 50%. Previous year we were 66% and prior to that 50%. So, in a span of two years, the export has already doubled, and we have reached a level from around 10% of revenue to close to 16% already in the last year. So, on that high base where we already realized the benefit of those projects that continues. We have not lost so much of revenue like we have gained in the last two years. The loss is because of the global conditions and yes there is a little bit of contribution from the mix change. But that is not significant. Major reason is the global economic conditions and there are no signs of clear improvement in the short-term, we hope situation would not remain like this at least one year or one and a half years from now.

Mukesh Saraf: Got it. Thank you for that detailed response, Sir, and just one follow up on that, if you could give some sense on the geographic exports, how it moved. I think you have given some color last time in about North America, Europe, and Southeast Asia.

Satish Patel: The exports about 45%, close to 47% in Europe, close to 30% or around 30% to Asia Pacific over around 10% to 15% China and about 10% USA that is the geographical split.

Mukesh Saraf: Just the second question is on the mix itself. We have seen obviously the industrial business doing better this time. We have seen a significant improvement there. So, would that have impacted our margins a bit, maybe some higher traded components within the overall revenue and if you could kind of comment on that?

Satish Patel: Well, the current quarter margin level that we have been able to retain which was also the level achieved in the preceding quarter and then we mean margin, we are talking about EBIT. We earned EBIT of 16% in the Q2 and this quarter also around 16%.

Mukesh Saraf: No Sir, I am not saying that the margins have declined. I am just wondering if there has been some impact of higher traded goods?

Satish Patel: What I want to first highlight is that we have been able to retain the margin despite conditions of the downfall in exports because of better mix in the domestic business and namely industrial business has grown in this quarter of around 9%. That is helping in terms of mix on the domestic side. However, there is no significant mix change between manufacturing and trading. Yes, there is some sort of a fix but not significant that can cause major impact on the profitability.

Mukesh Saraf: Got it. Great Sir. So, thank you so much. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Mr. Viman Goel from Alchemy. Please go ahead, Sir.

Viman Goel: Thank you so much for the opportunity, Sir. On exports only, actually I had two questions. The first one on exports being - a factor that you are watching at or the lead indicator that you are watching at to sort of track the revival of this particular segment. That is question number one, and the second question is on the progress of our electric vehicle order that we had received a large 2000 crores plus EV order that we had received. If you could just share the progress of the same. Thanks.

Harsha Kadam: Thank you, Mr. Goel, for the question. Let me take the first one and what indicators do we look for, for the exports? Obviously the first indicator is our own customers, and we are closely engaged with our customers to understand how are their markets and the demand proceeding there. So clearly as you know our own export business, we sell it to our own entities in Europe and they in turn cater to the local market. So, we have regular calls and meetings with them to understand the situation and so obviously that is the first indicator that we get. Apart from that, we look at some of the macroeconomic indicators which definitely tell us the direction as to how things can evolve, and this happens on a regular frequency. The third I would say is also obviously looking and keeping a track and monitoring the situation that develops the situation in the Middle East, which has started off as another impediment that has come in recently. The implications of that still not visible, but what is more concerning is the news about Germany getting into a slow recovery in terms of the economic growth. Now that we are unable to tell, it is all the economic indicators that we have to watch. So that is on the export business and the meanwhile what we can do and what we now control is to see can we leverage the capacity that we have to feed other markets and other segments with customers here in India, which we are trying to do now. Coming to the second question on your electric motors or the e-axle new business opportunity that we have won. I would like to state that we are working on a localization plan, it is going to take some time. However, the customer is evaluating our product and we have already submitted the samples. Now it is under evaluation and that is by far what I can express at this point in time.

Viman Goel: I try my luck on asking further on the outlook for export. What gives us the confidence because you have clearly mentioned that we are not going to sort of reduce our capex in terms of localization plans for exports, but what gives us the confidence that these should be better and if at all it turns for the worse? Let us saying like a scenario analysis if the export turns out to be worse. Will we still look to sort of stay the course in terms of our capex plan? Thanks.

Harsha Kadam: Two ways, one is what I would like to say is in terms of whether the export is going to change quickly, well your guess is as good as mine or vice versa. So, I guess we are all in the same boat, but what I would like to say is on our strategy to invest in our capacity expansion continues because we are at Schaeffler India believe we are here for the long run. So, we will continue to invest and clearly our strategy is to stay in the range of 15%-20% of our business to be the export part of the business which we will continue to sustain. There are many more product lines that we have to localize to feed even the Indian markets and we would like to leverage the cost competitiveness of the Indian market here to also look at opportunities to export. So, our strategy remains strong.

Viman Goel: All the best, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead, Sir.

Harshit Patel: Thank you very much for the opportunity, Sir. My first question is on the bearings business. Have we taken any pricing actions so far in 2023 on both sides either increments or the downward revisions for both the distribution business as well as the OEM business. So, if you can give some flavor on the pricing which is prevalent in the market in the light of the declining commodity prices, that will be very helpful.

Harsha Kadam: Let me take first with the OEM side of the business. As you know, the OEM side of the business is always indexed to the steel prices and steel being the biggest commodity in bearing. Obviously, that is set as the index against which all of us operate. So, as you are also aware that there has been no increases in the commodity prices in the last quarters. So rightfully, we have not raised prices in the steel or in our bearings product going to the OEMs. Talking about the distribution. In this quarter, we have not done any price increases because normally we do that once a year, right at the beginning of the year and we will have to wait for the next cycle for the price increase.

Harshit Patel: My second question is on our industrial business. I think since past few quarters you have been very consistently highlighting the order wins in the areas of linear motion guides, ultra precision drives, gearboxes, condition monitoring products, so the nonbearing portfolio within the industrial segment. Could you give some flavor on what is the scale of this particular business within our overall industrial segment? Also a follow up to that would be which of these products that we have started making locally in India? So, are there any localization plans as well on this front?

Harsha Kadam: So, let me approach your question with an answer wherein I would have to go back a little. As you know, we Schaeffler globally has been making some strategic acquisitions as a result of which these businesses have flowed into India because the business already existed and once Schaeffler made the global acquisitions they came within our portfolio. That said, we have increased our focus in growing these businesses as well. One such would be the Melior Motion acquisition we did three years back and more recently the Ewellix acquisition for linear guides. Well, I can say that post acquisition and are increasing the focus in India as well, we have started to grow on the businesses here as well. We have started to increase our engagement and reach with many of our customers when it comes to these kinds of products, whether it is the linear motion guides, or the high precision ultra drive gear boxes that we make through Melior for that matter some of the other acquisitions that we have made and the launch of new products like the lifetime solutions as well. Obviously today with digitalization coming into our business, selling the pure mechanical products is no more. The customer wants more value coming out of supply partner and this is why we are in the digital space as well and with the number of digital solutions that we have brought in, we have continued and we are continuing to add more to the portfolio we have clearly focused on growing this business and this is categorized as we call it the lifetime solutions, which we continue to grow, focusing primarily today on the raw material sectors, but we obviously are expanding into the other application segments like food and beverages and we have started to do that. So, we will continue to do that, but I want to highlight also here that as of now, we do not manufacture any of these products in India. What we have done is for some of the products we do bring them from Europe and try and customize the sizes here in India for the customers so that we are able to deliver with very short lead time. That is what we are going to do.

Harshit Patel: Understood. Thank you very much for answering my questions and all the best.

Moderator: Thank you, Sir. We move on to the next question from the line of Mr. Nikhil Kale from Invesco. Please go ahead.

Nikhil Kale: Good afternoon. Sir my question was I think you have mentioned about the strategic acquisition which Schaeffler has been doing, so just continuing on that part, Schaeffler has recently announced the bid to kind of merge with the Vitesco Technologies. So, over the next few years do you also see the possibility of the electric mobility side of things getting bolstered because of the capabilities of the Vitesco Technology. So, what could be the implications for us because of this merger?

Harsha Kadam: Well, at this point in time, all I can say is that we have made an offering to Vitesco. So, it is too premature to comment on this at this point in time. So, at the appropriate time, certainly we will give you an answer on that. Obviously, if we are taking this step in this direction, it is with a strategic intent it goes without saying, so clearly rest assured soon we will get to hear whatever is the outcome of this.

Nikhil Kale: Thank you.

Moderator: Thank you, Sir. The next question is from the line of Nirali Gopani from Unique PMS. Please go ahead.

Nirali Gopani: Hi, thanks for the opportunity. Sir, to begin with, I just wanted to clarify the capex number that we have announced. So, we plan to do a capex of INR 500 crores each for calendar year 2023, 2024 and 2025, is that right, Sir?

Satish Patel: Yes, we did mention, or we did announced that we would spend about INR 1500 crores in three years. So, it might not be exactly INR 500 crores each year, but it would be around that. So, depending upon the projects sort of planning and also depending upon certain conditions in the domestic export market, some adjustment would be done in this and therefore yearly capex would not be exactly INR 500 crores, but overall capex would still be about INR 1,500 crores in three years.

Nirali Gopani: Perfect. So, if I include calendar year 2022, we are roughly doing a capex of about INR 2,000 crores on an existing gross block of INR 2,000 crores. So, if you can highlight or on what kind of growth do we envisage over next three to five years, if you can qualitatively, I do not want an exact number, but with the export opportunity, EV, aftermarket, if you can qualitatively talk about growth that you see over the next few years?

Satish Patel: Very difficult to put a number to that. But we are targeting minimum double-digit growth, and capex would certainly enable this level of growth realization. Also, we have a good, sort of a ratio of capex to revenue and that has been proved whatever projects we have undertaken in the past. The past capex did deliver a better ratio of revenue and we are expecting similar also in the future, but it would be difficult for us to tell you a particular number of growth because of the capex.

Harsha Kadam: I think it is important also to understand why are we doing this. Let me explain this a little bit. So, we are investing because of primarily two reasons. One, there is an organic growth in the Indian economy because there is a growth in demand obviously, we need to expand, and we keep adding the capacities. So that is one, second, we have been doing a lot of trading business, bringing products from Europe and selling it here, which we believe to remain more competitive, it is good to make the product in India. So that is what we call as localization. Now these two obviously would require new capacity investments to be made here. So, when you look at it, the capacity investment does not necessarily mean that we are going to have an exponential growth in business. It is to make us more competitive, remain competitive or if not, take advantage of the competitiveness to grow the market share and you know how difficult it is to put a number to it at this point in time, but the effort continues to remain that our strategy is very clear. The organic growth is something we have to address. The strategic growth is something we have to address. The localization, our customer wants us to produce the products and manufacture the products here and so we have to invest, we remain committed to our customer’s strategy.

Nirali Gopani: Perfect. Thank you so much for the opportunity.

Moderator: Thank you. We take the next question from the line of Deepesh Agarwal from UTI AMC. Please go ahead, Sir.

Deepesh Agarwal: Good evening, gentlemen. Sir, my first question is in the opening remark you mentioned exports are weak due to weakness in the demand in Europe. However, if I see Schaeffler AG results, they have reported a constant currency growth of almost 9.8% on the second quarter or the September and even the export in growth in the Europe has been quite strong in that second quarter. So, Sir, are you able to reconcile the growth in Schaeffler AG is intend to grow why we are facing this struggle?

Satish Patel: So, let me answer very straight to your question. The growth that Schaeffler AG showing is the total Schaeffler group revenue growth consist of all the countries of the world. That growth includes what we grow in India also for example our own growth has also been over 10% in India. Similarly, there is a growth in the domestic business in China as well, domestic business in quite many other Asia Pacific countries and likewise. So, it is not only the growth of Europe, it is the growth of the world and that includes also the domestic growth of respective countries.

Deepesh Agarwal: I was referring to the Europe growth, which they report separately, which was 10.8% in their second quarter.

Satish Patel: I do not have the number in front of us, but I doubt if that is so for Europe and I will look into it and Gauri would come back to you, but I really doubt if that is the growth.

Deepesh Agarwal: So basically, you are still saying that it is because of weakness in demand not because of the inventory related problem which you were highlighting earlier.

Satish Patel: No inventory related problem is no more there. That problem was certainly there in Q1. So Q1 impact was not because of the demand conditions, it was more of an inventory correction that lasted only for a quarter, but the subsequent quarter, particularly this quarter is because of the demand conditions and that is caused because of the downfall in the market in other regions, particularly in Europe and China.

Deepesh Agarwal: Also, Sir, if you can share the growth rate numbers for railways, wind, EVs, two-wheelers MHCV that would be helpful.

Satish Patel: You mean the revenue growth in these sectors, right?

Deepesh Agarwal: Yes, revenue growth in this quarter.

Satish Patel: We have grown by about 12% in railways that is 12% to 13% this quarter vis-à-vis the same quarter last year.

Deepesh Agarwal: Wind and passenger vehicles.

Satish Patel: We do not have a breakup into vehicle category. We have break up into our segments which are more like two-wheelers, and we have off road industrial, wind, the distribution, likewise.

Deepesh Agarwal: If you can share in that fashion that would also be helpful.

Satish Patel: We have a strong growth in distribution. Distribution grew around 15%, power transmission, very strong growth, wind reasonable growth also in wind now, in this quarter wind growth is around 7% versus the same quarter last year. I would say except two-wheelers, all other segments have grown quite well in this quarter.

Deepesh Agarwal: And last bookkeeping question, what would be our current utilization level because we are doing the capex and the demand has been little weak since last two, three quarters what would be utilization level?

Satish Patel: So, our different plants have different structures of the product and different product profile therefore one plant is not comparable in terms of utilization percent to the other plant. But if I take the standard products and the volume products which are in our industrial plants, particularly Maneja plant, that plant is utilized over 85%, the other two automotive plants, Pune and Hosur are close to 80% utilization.

Deepesh Agarwal: Thank you.

Moderator: Thank you, Sir. The next question is from the line of Ashish Shah from JM Financial. Please go ahead, Sir.

Ashish Shah: Good evening and thank you for the opportunity. Sir, you did just give the breakup region wise of the exports, any indication of the growth or degrowth in each of these geographies, let us say Europe, Asia Pacific, China, what would have been the growth or the degrowth in these countries?

Satish Patel: Yes, I repeat the same answer that I already gave for the four regions. Amongst those core regions, the degrowth is basically coming from Europe and China. Individual, I do not have the ready figures, but this too because other regions we have not actually encountered the degrowth. These are the two regions contributing largely to the decline in exports.

Ashish Shah: Sir secondly, you did talk about wind segment probably looking better in the second half of the fiscal year, I mean, for us it is a different way, but how do you see that coming up? So, you said for the last quarter the wind grew by 7%. Would you expect like a good double-digit growth in the quarters to come? Do you see a sizable pickup, or you think it is still somewhere in gray zone?

Harsha Kadam: Well, as the wind was a sector which went down very badly in the second half of last year and the first half of this year it got worse. But from the last quarter, Q3 onwards, we have seen an upturn in the demand. Fundamentally, I guess this is coming on the back of all the inventories that were lying have been now cleared out with all the projects getting reactivated. So that is the main reason and what we see is in the third quarter when compared to Q3 2022 while it is a 6%-7% improvement. If one were to look at our own business in the third quarter compared to the preceding quarter which is Q2, we have seen good demand and we have been able to leverage a growth of 18%. So that itself is telling us that the demand has come back a little bit. But again, as I say we need to continue to watch this needs to sustain. So, while overall at an annualized level it is still nine-month period when you look at it, the wind is still in the negative zone compared to last year. However, the last two quarters have shown definitely some positivity there.

Ashish Shah: And one small thing if I may squeeze in, what is the broad contribution of wind as a business to the industrial and any ballpark number, Sir?

Satish Patel: Wind contribution in the industrial business, which is about normal because it was down by about, sorry nine months I would say it is about 7% that was at an overall level 15% in industrial business.

Ashish Shah: That helps. Thank you very much.

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

Rishi Vora: Thank you for giving me the opportunity. Just on the auto replacement side, I wanted to understand that on a Q-o-Q basis, we have seen a decline in revenues despite the acquisition of Koovers. So, is this a seasonal thing where we see a dip in 3Q over 2Q or are there any challenges in the automotive replacement market, which we are facing recently?

Harsha Kadam: My answer to that would be, when you study the business cycle for us in the automotive aftermarket space, we always see that third quarter the demand is a little low in the automotive aftermarket in spite of the fact it being a festival season. We always see either it is flat, or it slackens a bit. We have seen the slackening this year as well, but the next quarter it bounces back very strongly and what we have also seen is the OES part of the business does well, it also grows well because I guess this is true in the market situation that customers prefer to take their cars and vehicles for servicing to the OEM. But we have seen this pattern come out very clear and so it has nothing to do with the acquisition of Koovers. Koovers is still running the same way and we have been keeping our strategy right now Koovers it is going through an integration into the company. So, they are totally two different things. So, we are not seeing any impact of Koovers acquisition on the demand.

Rishi Vora: Yes. I meant that despite merger of Koovers, the revenues were down. So, there should have been a positive impact because of Koovers financials as well. But yes, I understood that it is a seasonal phenomenon.

Satish Patel: Let me also answer that Koovers revenue has not declined. So rather revenue on the revenue front consolidated results are not negative or not lower than the standalone.

Rishi Vora: And secondly, on the automotive aftermarket, where we will we be in terms of localization like it could be like 80%-90% given that recently over the past two years we have added a lot of new products. So just wanted to understand where we are in terms of localization in the aftermarket, automotive aftermarket segment?

Satish Patel: Almost 100% because the products that we have brought in are not contributing in terms of volume so much that disburse the localization of aftermarket as a whole.

Rishi Vora: So, it is a very small portion right now the new product? Understood. Thank you.

Moderator: Thank you. We will take the next question from the line of Sameer Panke from Centrum Broking Limited. Please go ahead, Sir.

Sameer Panke: Sir, I have a question on other income. We have seen in the last three quarters, the run rate for other income has increased for nine months in fact it is jumped more than 59%. So, on a nine-month basis we have a revenue growth of around 6% and bottom-line growth also in the single digit and other income has grown at very high rate. So, I am just wondering what it attributes to?

Satish Patel: Well other income has grown. You are right, it is above by INR 70 million as against INR 141 to INR 213 million. I do not have the split of that, but I can confirm that there has not been any significant change in the structure of other income or a new income which was not there at entirely last year which is realized this year.

Sameer Panke: Your annual report if I open and look at the other income break up it is mainly interest income that you generate out 80% to 90% of the other income is comprises of interest income.

Satish Patel: So, I stand corrected because you are reading the published results probably and not the presentation that Harsha just now made. So, in the public results, yes, you are right, the other income includes interest income. Interest income has gone up this year. Two reasons, one is that we had certain old refunds and that refunds come with also the overdue interest. So, we have collected interest on those refunds and second is the yield improvement on our cash position. So those are the reasons for interest income increase which is also part of other income. But if you look at the presentation that we have shown today, we do show interest as a separate figure, and you can then really see the rest of the other income as a separate line item.

Sameer Panke: Another question is on the plant relocation that we had talked about, and we were supposed to spend around INR 300 crores on that. So, I just wanted to understand what is the status of the same at the moment?

Harsha Kadam: I think we would like to clarify that there is no such thing as a plant relocation, we are not talking about the plant relocation. What we talk about is investing in capacities for localization and plant construction locally in India. It is not like we are transferring a plant out of Europe here. That is not the thing, that needs to be corrected.

Satish Patel: What we are currently doing is we are constructing a new plant near Hosur, and we are also constructing a new hall at our new location.

Sameer Panke: So, the capex that we have announced an INR 1,500 crores over a period of three years including this year. So broadly this capex will you bifurcate for which products or for which category that we are incurring, or we are going to incur?

Satish Patel: No, we do not have such a breakup to provide you readily. The capex consists of capex for infrastructure, capex for building plant and machineries, capex for localization, capex for capacity, capex for certain type of new products, and also the process improvements and related capex. So, it consists of all.

Sameer Panke: So existing capacity what we have at the moment, will get enhanced in the current products that we are manufacturing,

Satish Patel: Yes, of course the capacity would get enhanced quite significantly and large amount of capex is for capacity that much also we like to clarify it is not only for existing products, that is what I mentioned that capex also for the new products, also for the existing products, additional capacities because of the continuous demand and also for the localization as well as for quality, process and the infrastructure.

Sameer Panke: Last question is on Koovers, when we acquired Koovers, and we had a call in which you have alluded that further investments might be required for Koovers to take Pan India both in terms of technology platform upgradation and logistic backbone that we have to set up as we are planning to take it Pan India. So, any plans have been finalized I mean this existing capex of around INR 1,500 crores including the investments that we are planning for Koovers?

Satish Patel: No, the INR 1,500 crores capex that we have been talking about, that does not include Kovers because this investment we have been talking about now almost 6-7 months, the Koovers acquisition happened just couple of months before. But the capex or let us say whatever investments that we have to do for Koovers for the technological, particularly IT related development and also for the warehousing, that investment will happen. But it is too early to already say when and how much because we have just completed the acquisition and in the integration phase currently.

Harsha Kadam: Also, I think there are a lot many softer things to be addressed and with that itself we can try and continue to sustain the growth, investments should be coming at the appropriate time.

Sameer Panke: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Gauri 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. We now conclude this call. Thank you and have a good day.

Moderator: Thank you. 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)

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