"Schaeffler India Limited Results Conference Call"

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Moderator: Ladies and Gentlemen, Good Day, and Welcome to the Schaeffler India Limited Results Conference Call for Quarter 1 ended March 2018. As a reminder, all participant lines will be in the listen-only mode. 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 '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury from Schaeffler India. Thank you and over to you, sir.

Vijay Chaudhury: Thank you, Stanford. Ladies and Gentlemen, Good morning. And welcome to the Q1 Results Call for Schaeffler India Limited. Today we have with us Mr. Dharmesh Arora – CEO, Schaeffler India, and Mr. Satish Patel – CFO, Schaeffler India. I now hand over the call to Mr. Dharmesh Arora to take us through a short presentation on our results and over to you, Mr. Arora.

Dharmesh Arora: Thank you, Vijay. Good morning, Ladies and Gentlemen. And once again, a very warm welcome to all of you to our quarter one investor call. We announced our quarter one results yesterday which was followed by the Annual General Meeting which was well attended here in Mumbai. We also uploaded the quarter one investor presentation which hopefully all of you have been able to see and also have it available with you as rough because that is the one that I will be using to walk you through our performance of quarter one 2018.

So, with that I will try and reference the slide numbers I am on. The Slide #2, just the overall sketch of the contents of my presentation, as usual I will talk a little bit on the economic environment and how we see that developing, followed by financial update for quarter one 2018. The merger transaction is proceeding well as it was planned, I will give you a little bit update on the timeline for that and outlet, and then wrap it up with some of the key takeaways from presentation.

Moving to Slide #3:

The headline is that India is now once again the fastest growing large economies in the world. We have all seen the GDP growth numbers coming out in the last two quarters of 2017 which are once again pointing to an upward trend, 7.2% GDP growth for the last quarter of calendar year 2017. Subsequent to that and around this time and of more relevance for industries like us is the IIP numbers or the index of industrial production. The industrial output is very encouraging for the last some months, the growth has been hovering somewhere between 7% and 8% in these times. Since the industrial output makes up close to 25% - 30% of the GDP, we are also hopeful that based on the January, February numbers that we see here the GDP growth for the quarter one 2018 should also see some healthy improvement.

Of course, the consumer price index has risen in the last months, primarily driven by the global commodity prices, crude oil and some local food prices related inflation. There continues to be massive investment push by the government as it was announced in the budget, which is again a very good sign and good opportunity for businesses like us. On the negative side, from the same Union Budget of course has been the hike in customs duty which will have an impact on our business since we do import raw materials, we import some components as well as finished products to have a complete basket of products available to our customers.

Moving to Slide #4, subset of the index of industrial production:

Some of the core sectors that we track, cement has particularly seen very strong growth in the quarter one 2018 but let us admit that this is coming from relatively low base we had seen in the first quarter of 2017 at the back of demonetization where the real-estate business, the construction business had taken a beating. But nevertheless, I think it is nice to see some really smart recovery on the cement production. Similarly, the other core sectors like steel, coal and electricity generation have also seen growth anywhere between 2% and 6% here.

Moving to Slide #5, which is the automotive or the mobility section. This is where it is really heartening to see really nice and smart growth. The two-wheelers and three wheelers once again in quarter one have grown close to 30%, once again started with a low base of quarter one 2017 which was affected by demonetization but even if we were to discount for that factor the two-wheeler industry probably has seen about 11% growth in quarter one and anticipated growth for the rest of the year also looks strong, given the push in the rural economy, general rural economy doing well and so on.

Commercial vehicles and tractors, agriculture tractors have been absolutely nice, the growth of 27.6% and 28.1% respectively on CVs and agriculture tractors, this really are setting new numbers each month and very, very strong growth here. Based on our conversations with customers and based on the outlook that was provided by the weather department yesterday that the monsoon is expected hopefully to be normal, we again expect that these sectors, particularly the tractors and two-wheelers will continue to see good growth. Passenger vehicles have also seen reasonably good growth, 6% for the quarter one 2018, most of that growth is driven by the sports utility vehicles, SUVs, and again many of our customers, of course lead by Maruti, Tata and others have really seen very smart and good growth there.

From the macroeconomic environment let us now move to our own performance:

The company's performance, so let me jump to Slide #7 here. The quarter one results Rs. 546 crores net income which is a growth of 14.5% compared to the second quarter of 2017. Compared to the immediately preceding quarter which his quarter four of 2017 the growth is 4.1%. Most of this growth, particularly from the last quarter is coming from both automotive and industrial, the export business has not done as well related to the quarter four 2018, but the domestic market has really been very, very strong. And this is kind of reflected in the sales mix pie which is shown on the chart at the bottom right of this page. This is the chart showing the overall sales mix of our business in quarter one 2018, so 58% of our sales in quarter one came from what we produced in our own plants Maneja and Savli and sold to our domestic customers in India.

15% of our overall sales evolves related to what we produce and export to our own group companies outside of India, and 27% of our sales is of the products that we import for selling to our domestic customers in India. As you can see the sales mix did change a bit in this quarter, so the sales mix for the domestic sales went up by 3 percentage points, so what it means that in quarter one 2017 55% of our overall sales came from own manufacturing and that is time for local domestic customers, whereas in quarter one 2018 it jumped to 58%. On the other hand, the sales contribution of exports reduced from close to 18% that we had in 2017 quarter one now reducing to 15% of overall sales mix coming from exports.

Now let me go up to the next slide, Slide #8 here. On the profitability side:

EBIT levels of Rs. 981 million which is higher than what we achieved in quarter one and overall profit levels of 18% for this quarter but compared to immediate preceding quarter of quarter four 2017 there is a reduction of 1.4 percentage points, but very much in line with the quarter one of 2017 as well as the whole year performance of 2017. So basic message is that yes, we have been able to sustain the EBT levels that we had achieved in 2017 which was a significant improvement over the 2016 levels.

The Slide #9 gives a little bit more details on those numbers, but I think most of them I did speak to in the graphic way in the preceding slide, so I am going to skip this.

Slide #10 is giving the picture of the other two legal entities, INA Bearings India Pvt. Ltd, LuK India Pvt. Ltd as well as what the performance levels are of the pro-forma basis of Schaeffler India Limited. So, INA Bearings India Pvt. Ltd achieved a sales of Rs. 316 crores which is a growth of 10.6% compared to the same quarter of 2017. Profitability level of PBT margin of 9.8% points which is slightly better than what we achieved or what the company achieved in calendar year 2017. LuK India Pvt. Ltd achieved a sales of Rs. 256 crores which is a growth of 30.2% compared to with the quarter one of 2017 and PBT margin of 14.3%, once again that is better than calendar year 2017 levels for that company.

A lot of this growth is consistent with the growth of course in the automotive sector, but importantly very nice growth is in the back of very strong demand for commercial vehicles and agriculture tractor products which make up fairly large portion of the LuK India sales. On the pro-forma basis the sales was Rs. 1,113 crores, a growth of 16.5% and also the EBITDA margin of 14.9%, both of them better than what we have been able to see in the last year.

Now, let me give an update on the transaction:

The demerger transaction itself, so I am on Slide #12 now, it has listed down all the regulatory steps we have to go through in order to complete the merger. I am glad to announce that all these tasks are going as they were originally planned. Last month we had the extraordinary general meeting of the shareholders where the shareholders have overwhelmingly voted in favor of the merger to go forward, and we have now the merger proposal with NCLT for their final approvals followed by informing the stock exchanges and SEBI with the merger process getting completed as it was planned in quarter three of this year.

So, with that let me wrap up by saying that yes, the economic growth momentum is picking up and we are very glad to see that and we are expecting that this should continue through most of the year. There is a very strong domestic demand and with that the opportunities for us both in automotive as well as industrial business divisions of Schaeffler India. The better sales volumes support us to maintain the EBITDA levels that we had achieved in 2017 and we expected that the growth not just continues but with the GST impact more or less behind us we infact see this picking up even further in the months to come. And finally, the merger process that we had announced on August 30th 2017 is on plan as it was announced and we hope to complete the merger by quarter three of 2018.

So, with that we are all marching towards one strong Schaeffler entity in India and with that in conclude my presentation and I hand it back to Vijay who will advise the logistics for Q&A. Thank you.

Vijay Chaudhury: Stanford, you may proceed with the Q&A.

Moderator: Sure, sir. Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Sandeep Tulsiyan from JM Financials. Please go ahead.

Sandeep Tulsiyan: Sir, my first question is pertaining to sales mix that we have provided on Slide #seven. Of course, one way to slice it is in the form of graphical representation that we have done between domestic manufacturing, exports and traded products. If you could also help us with the breakup between the other way, i.e. automotive, industrial and exports or aftermarket the way we do it?

Dharmesh Arora: Sure. Well, I think we had shared in the quarter one or rather the calendar year 2017 results that overall when you look at the pro-forma level basis almost 57% of our business in India is automotive and 43% coming from industrial. So that makes quarter-over-quarter does not change much and what we will do subsequently is keep giving this information at least on a 12 months basis as to how we see this evolving. But the good thing really is that the growth in quarter one for both automotive and industrial was fairly strong and that is really very, very encouraging that we are able to maintain sort of the healthy mix we have between both automotive and industry when it comes to pro-forma level. Coming to the Schaeffler India Limited, the legal entity alone, then automotive contributed 19% of overall sales of Schaeffler India Limited legal entity, and 81% came from industrial.

Sandeep Tulsiyan: And is exports part of industrial?

Dharmesh Arora: Primarily, I think I have been sharing that the business model of industrial business is such that there is always imports and exports of very wide portfolio we do have, so the exports are primarily in industrial business.

Sandeep Tulsiyan: And secondly, we have seen a decline in exports as in the share of exports has come down by 2.3% points as you highlighted, could you help us understand is this primarily a function of movement in currency or is it more pertaining to slowdown in specific geographies or specific sub-segments where we supply these products?

Dharmesh Arora: Yes, we have got a nice sort of long-term business relationship and contracts of course with our customers in India on the automotive as well as industrial side, and exports, our business primarily is to export products to our group companies in other countries who ultimately make those products available to the end customers in the regions that they operate in. So, I think the quarter one change in our sales mix, one is at the back of very strong demand domestically, so I think the growth particularly both in distribution as well as in OEMRO at the back of probably GST behind us and general economic activity really picking up has been particularly strong, so I think we have been able to serve our customers domestically in a nice manner and that has resulted in some sales mix change here for the quarter one. But once again, quarter one or one quarter is too early to make any definitive comment whether this would be the way it is seen, last year I think you recollect we had a very nice growth in exports and we look forward that we are able to maintain a very nice mix between both exports and domestic markets in times to come.

Sandeep Tulsiyan: So, if I understand correctly, basically we have allocated more production capacity to domestic customers and it has got nothing to do with weak demand in exports or anything?

Dharmesh Arora: I would not say so, I mean we all know that GDP growth globally has been pretty strong, I think 3.5% - 3.7% level, so good news is that the demand remains strong pretty much from all markets of the world and we would continue to see as to how we participate appropriately in all the growth opportunities.

Sandeep Tulsiyan: Secondly on the margins side we have seen a significant reduction in our gross margins, so would want to understand that is it pertaining to only the mix that we have been doing less exports or higher domestic sales or has it got to do more with commodity prices and steel prices have been firming up. And you mentioned yesterday that you have taken a 4% kind of price increase across products, how much of the commodity pricing has been mitigated through this 4% hike?

Dharmesh Arora: So, actually you have to really go back to Quarter 4, 2017, and if you recollect we had a particularly strong performance on the profitability side on quarter four 2017. And this of course was an outcome of couple of things, one, a very healthy sales mix that we had seen in quarter four with the distribution business really picking up after the demonetization or rather the GST impact really settling down, exports picking up or exports being particularly strong so the sales mix was really very, very favorable. And also we had some special impacts related to the full year in that quarter particularly which was favorable actuarial valuation of employee cost. So this is something which was comprehended in quarter four performance. Moving to quarter one, the sales mix is not as favorable as it was in quarter four of 2017 and also because of special impact that we had in quarter four are kind of not there in quarter one. But more importantly what I would like to highlight is the level of profitability that we have delivered in quarter one is also comparable to what we were able to achieve for the whole year of 2017, and that is something for us extremely important that we have been able to give similar results as we were able to achieve in 2017.

Sandeep Tulsiyan: And pertaining to steel price hike how much have we been able to mitigate through this pricing?

Dharmesh Arora: So there is always a little timing difference here, I mean you would appreciate once the commodity prices are rising you are unable to realize all of that and for that matter at the same time from the market. So as you reference that yesterday at the AGM I shared the thought that we are increasing price of our catalogue products across the board, this is effective actually April 1, 2018, so those price increases have actually not even shown up yet on our quarter one results. So this is always the case that the price increases or the commodity increases, there is always a lag of our ability to realize that from our customers. And I think this will be something that will happen over the course of years.

Moderator: Thank you. Our next question is from the line of Nishit Jalan from Kotak Investments. Please go ahead.

Nishit Jalan: Sir, last quarter you mentioned that we have big CAPEX plans to expand capacity in both INA and on the Schaeffler India side, so just wanted to check where are we on that right now. And just a follow-up on that, in INA is there a capacity constraint because of which we are seeing lower growth or is it the kind of growth that we are expecting you are able to deliver on that?

Dharmesh Arora: Yes, I think we are on course with the announcement that we had made of doubling our CAPEX allocation for this year and next year, so as we speak we have plans of investing close to €40 million in India in terms of expanding capacities, bringing new products and also enhancing our R&D capabilities in the country. We started the construction of the second plant haul at Pune late last year and that is well on course, the building is expected to be completed at the end of this year, and similarly we would also start enhancing our plant building space in Savli towards the latter half of this year. So this was all part of the plan of the 40 million CAPEX plans that we have made for the year, and that is well on its course. Coming to the INA performance, I am assuming you are referencing the growth of 10.8% year-over-year in the quarter one 2018 for INA compared to probably higher level of growth we have delivered in that company in the past. Let me just give you a couple of comments on that, one, INA's business is largely automotive business, 75% of the business comes from automotive and within that automotive business is primarily passenger vehicle driven business. And passenger vehicle industry in quarter one 2018 has grown 6% year-over-year whereas as you can see INA's business grew 10.6% compared to the year before. So clearly, we have been able to outgrow the automotive passenger vehicle industry which is what the INA's business to this extent is linked to. At the same time some of the program launches that a couple of our customers in automotive space had, they had to delay or retime them, so it is also some kind of timing affect of the volumes and the ramp-up which were planned have not yet happened. And we certainly look forward to getting back to high level of growth in future, but to some extent it is also linked with how the passenger vehicle industry performs for the rest of the year.

Nishit Jalan: Sir, my second question, if I look at our company's annual results, for example if I look at the annual report last year, the gross margin on traded goods something which we calculate from the annual report, that tends to be really volatile if I look at it on a annual basis, the broad range is somewhere between 17% - 18% to up to 27%. Just wanted to understand what drives this volatility and how should we look at it in terms of on a steady state basis?

Dharmesh Arora: Let me ask Satish, may be hopefully he can give better insights into it.

Satish Patel: Your question is oriented towards why do we have so much of volatility quarter-on-quarter or year-on-year if you look at couple of years back in the trading margin situation and you refer the sales to disclosed figures of the cost or the cost of sales in the annual report. We have couple of reasons for that, one is the FX situation in the respective years, some years have FX gains and some years have FX losses, as you know accounting wise the gain and losses from the invoice to the payment gets accounted in the special another disclosure of FX gains and losses and not along with the cost of sales of the traded products. So when you combine the FX losses and gains which are separately disclosed the volatility that you find should not be as high as what you perceive or what you see there in the report. This is the first reason. The second reason is, I can more or less confirm that in terms of overall sort of margin or the pricing situation for the traded products there is more or less the consistency, because the prices are determined purely based on the arms length and unless there is a significant change in the cost coming from the global impacts like the steel price increase or like some input cost increase, it is unlikely that the margin situation vary significantly between the period.

Nishit Jalan: Sir just one final question, on the aftermarket segment last quarter you highlighted that we have seen a very strong recovery, just wanted to check whether the momentum continues or we are seeing some slowdown over there?

Dharmesh Arora: I think the momentum is continuing, we still have nice demand and order book from the distribution business.

Nishit Jalan: Any numbers you can share in terms of growth that we have seen in this quarter?

Dharmesh Arora: I think our distribution business roughly contributes about 36% - 37% of Schaeffler India Limited's overall sales revenue and that certainly has seen double-digit growth in the last month and that is something we are still experiencing for the foreseeable future.

Moderator: Thank you. Our next question is from the line of Sagar Shah from KSS Shares and Securities. Please go ahead.

Sagar Shah: I just have two questions actually, the first question was related to the sales mix, I just wanted to confirm that our auto business contributes about 57% to only the fag brand I am saying is only the Schaeffler India group, Schaeffler India limited?

Dharmesh Arora: There are a lot of numbers here but let me correct it one more time. Schaeffler India Limited, the legal entity, erstwhile FAG Bearings India Limited, for that legal entity automotive is 19% of overall sales and remaining is of course is industrial which is 81%. Now on the pro-forma basis, when we report INA's business, when we report LuK's business with it, then 57% is automotive and 43% is industrial.

Sagar Shah: Sure, sir. My second question was related to capacity utilization, can we tell capacity utilization for both our plants for Schaeffler India group?

Dharmesh Arora: Sure. Savli which was the plant set up in 2012, we have two different segments there, DGBB Bearings and these segments we have fixed lines there with a total installed capacity of 60 million. This is pretty much 100% utilized, so the demand and supply there is fairly matched, and we are using all capacity. The large size bearing which is primarily going into sectors like steel, raw material and particularly wind sectors, we are making expansion of capacity there since last year and the utilization there is not close to 100% in fact, I would say it is may be close to 60% level. And there is also a function of how the wind sector for last couple of quarters has seen softness in demand due to the new tariff structure which is sort of getting established. So that is Savli. When it comes to Maneja, once again we have got most of the segments there are very well loaded and overall plant perspective we see close to 90% plus utilization at Maneja.

Sagar Shah: Okay. My third question was related to the trading business actually, the trading business almost contributes 27% of the total revenue as highlighted in your investor presentation, so going ahead is it something like if by the end of this year if we go in for CAPEX at Pune plant and we are also expanding the Savli plant, can you expect the trading business to at least we can grow our own manufacturing domestic rather than just trading products?

Dharmesh Arora: Sure, I mean our intent of course is to continue to expand our local manufacturing footprint and produce more of what the customers need locally here, it is always a function of having the appropriate volume and finding a reasonable business cases, having appropriate quality and capability available in the country to localize such products. But our long-term intent always is we want to produce more of what is required by our customers in India. Having said that, once again, our portfolio is very huge and at a point of time I would say that we will be able to produce everything that our customers need in India. So directionally I would agree with you that yes, we would continue to work on reducing the percentage sales mix that is contributed by traded products over the years to come.

Sagar Shah: Sir, another question related to the same question actually, are we trading products related to our brand or like other brands, are we trading to other countries when you give your products in the trading business we are trading in something like other brands or which brand are we trading on?

Dharmesh Arora: So once again the chart you are referencing on slide seven is limited to legal entity Schaeffler India Limited, so here we are talking about primarily FAG products, but may be to some extent INA products as well. So these are the products that we buy from our group companies in other countries around the globe, import them to sell them to our local customers in India.

Sagar Shah: My last question was related to imports, as you have indicated and you have mentioned just few moments ago that we will be something affected by increase in the custom duty and cess on imported auto components, so I wanted to know what is the import value actually of the entire 2000, something you can give for this quarter and may be for last quarter, what is CIF value of import actually that we are actually importing for these imported auto components?

Dharmesh Arora: Sure, may be I can give you some high level numbers here, as you can see that we import 27% of finished goods that we sell to our local customers, but within the rest of the 73% products that we either produce to sell to our own customers here or export they also have some import content in them, so we might be importing let us say specific types of seals that go into producing those bearings or those products or in some cases we will be importing some rollers which are used for producing those bearings. So overall perspective, Schaeffler India Limited legal entity, our overall imports will be may be more towards 40% levels, not just 27% but we might be importing some components which also go into our local production. So for Schaeffler India Limited more like 40% and if you really are trying to understand as to what could be the impact from these duties and so on, it could be roughly in our opinion 1% of sale is the overall impact from these recently announced duty impacts, and that is on all Schaeffler India as a group.

Sagar Shah: So you are seeing 40% of, I did not get actually, 40% of the value you are saying?

Dharmesh Arora: Right, so for Schaeffler India Limited roughly about 40% of all our things would be into imports and both for finished goods as well as that includes sometimes raw materials and individual sub-components that we might be importing.

Moderator: Thank you. Our next question is from the line of Krishna Kumar from Sundaram Mutual Fund. Please go ahead.

Krishna Kumar: You are talking about price hikes, you said it is about 4% across the catalogue, I guess this refers to the distribution business. So from OE perspective has it been done or what is the kind of timeline we see that the OEs or so give us pricing increase?

Dharmesh Arora: Sure, Krishna. The realization of price is not just a function of announcing a price increase, you would realize that we have various kinds of contracts with different customers, there are customers where the price increases are either not feasible or linked with certain commodity prices, then you have function of the negotiations and concluding the negotiation satisfactorily and so on. So I do not want you to get a sense that from April 1 our sales go up by 4%, it is just something that is a first step to go out to the market and say the input costs have gone up and to compensate for that we are increasing our catalogue prices across the board. But the realization of prices, the function of the inventory our customers are carrying, when would they start ordering the new price level inventories from us, our ability is to realize that level of price increases based on the individual relationships we have and the contractual commitments we have with each one of those customers.

Krishna Kumar: Sure. Second thought, when you talk about industrial being higher part of the business mix in listed entity and little lesser in the overall entity, I guess you club also the commercial vehicle part of the business also into industrial, right?

Dharmesh Arora: I mean, for bearing business it is included, transmission bearings it is included in industry, but clutches for example, we have large business of clutches to commercial vehicles, that is primarily or that is all in LuK business which is all we consider automotive. So it is a little bit complicated.

Krishna Kumar: So, if we just look at the listed entity, within that 80% industrial, what would be exposure on trucks basically?

Dharmesh Arora: Very little, so like I said 19% of the business comes from automotive there and 81% comes from industrial within the listed entity Schaeffler India Limited revenue, so over there the automotive will be primarily wheel bearings which go into passenger vehicles primarily and some other bearings which we supply to tractor customers and trucks, but mostly it will be wheel bearing business. And rest in industrial space it will be two-wheeler bearings, to that extent automotive is included in our industrial piece of business for listed entity.

Krishna Kumar: Sure. And last question, I am sure you mapped the competitive activity in terms of what other things we are doing, so particularly are you kind of seeing any strong inroads by other players in our business segment, would it be possible to comment something on the competitive activity and how you see that going forward?

Dharmesh Arora: Well, we of course have our business that we focus on and that we keep an eye on, but again at this point of time I would say with the opportunities available in the market place and how we continue to grow our business in the long-term, the initiatives we have in place will be fairly good in terms of our ability to continue to grow our business. And more importantly, our focus is all about really making this merger success and ensuring that all the synergies that we are expecting to realize from this merger we are able to execute that. And with that we are creating a much stronger entity in India which would be far better placed in wording off the competition which is in the market. This company also has a very nice mix between automotive and industry, so once again inherently we are also trying to make our business stronger to sustain the sort of cyclical or other situations in the market place. So clearly, I think the steps we are making, the steps we are taking is creating a much stronger entity in India.

Moderator: Thank you. We have the next question from the line of Achala Kanitkar from Birla Sun Life Mutual Fund. Please go ahead.

Achala Kanitkar: Sir, I just wanted to get a little bit understanding on the balance sheet part of INA and LuK, so if you could share what is the debt in these two companies as on CY17 because P&L has been shared, just wanted to get a sense on the pro-forma balance sheet as well, if you could share the net assets, at least debt and net assets part of the two companies.

Satish Patel: So, as far as balance sheet of INA and LuK is concerned, you are right that not so much of data or disclosures are available, but I do like to mention that as part of the merger scheme announcement we have announced balance sheet figures as well, not the full fledged balance sheet but the key figures of net assets, net worth and similar key figures. So such figures are available on our website under the merger scheme portion of the disclosure. I do not have all the figures but I can comment about two figures that you like to know, one is the borrowings, so as far as INA and LuK India are concerned, both have two types of borrowings, one is the borrowings in India rupee currency which is purely inter-company borrowing, so INA has borrowed about Rs. 900 million, which is Rs. 90 crores from Schaeffler India Limited and LuK has no Indian rupee borrowing. Both the companies do have borrowings in the form of external commercial borrowings, I do not have the ready figure but I do confirm that they are in the range of approximately Rs. 100 crores.

Achala Kanitkar: Together?

Dharmesh Arora: Yes. So, LuK has very low borrowing in foreign currency in ECB, largely borrowings are from INA India. And the second question was related to net asset or the gross block, there again I do not have the figure, but I can confirm more or less that the overall gross block of INA and LuK India is similar to Schaeffler India Limited. Reason being INA is a younger company, assets are quite for the new, they are acquired in last 10 years or so. LuK has low net block because of the old company and having the written-off asset, quite many of them, whereas Schaeffler India Limited is also quite old company and having net block at the low level because of the assets age is quite old. So sum total INA and LuK net block is similar to what Schaeffler India Limited is having.

Achala Kanitkar: Second question I wanted to ask you was more with understanding the roll of bearings in automotive and future, there has been a lot of noise with respect to the roll of bearings because especially in the EV era wherein you would not have an engine but I believe there will still be a lot of need for bearings and other components which would get added. So just wanted to get a sense on would bearings continue to still a very relevant part? And although the volume might reduce but the value content might just go up because of the sophistication that would be needed in bearings as well. And within this just wanted to get a sense, as a parent where are on that front?

Dharmesh Arora: Sure. Noise is what our bearings cut out, so that is the fun fact. Well, jokes apart, yes the evolving situation in terms of technological developments, particularly this thought that when the electric vehicles would be around we would not need bearings in a vehicles is not quite true. Granted may be some of the applications of the bearings that we have today may not either be necessary, for example, if there is no internal combustion engine in electric vehicle then obviously any bearing which goes into internal combustion engine today would not be necessary in future. But clearly that ICE engine would be replaced by an electric motor which will need some bearings. Similarly there is some notion that the electric vehicle may not have any transmission and hence any bearings which go into transmission are also going to be redundant, which once again is not entirely true. The electric vehicle to realize potential of electric motor may still have transmission in them, it may not be eight speed or six speed transmission, it could be a simpler two speed transmission but they would still have a transmission and there would still be some bearings in them. So that is one point of view.

The second point of view that all the noise that you said about the electric vehicles and how quickly they could come is kind of now settling down into a more realistic manner, so in our opinion until 2030 at best India may see 15% or may be 20% electric vehicle penetration, in that year in 2030 of all the vehicles produced may be 15% to 20% could be electric vehicles which only means that in absolute terms the number of internal combustion engine production and vehicles will continue to rise from today until 2030. So that is the second point.

The third point, the bearings that we know today may not remain the bearings of future. Bearings can also be data generative with a sensor integrated in them they can provide lot of useful data which can be used for data analytics which can be used for many other purposes, whether you call it autonomous vehicle, whether you call it electrification and so on. So I think those are also trends which will help bring more content into bearings.

Moderator: Thank you. Our next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Sir, my question is in regards to your CAPEX, you have mentioned €40 million of CAPEX, so just wanted to know how much is it for the FAG bearing standalone entity and how much or the others? And plus, out of this €40 million how much have you already spent, is it for last year or even going forward what would be the CAPEX?

Dharmesh Arora: Sure, Kunal. So, roughly out of the € 40 million we have a very even split that Schaeffler India would be doing about half of that while the other two entities will be investing the other half. And let me just explain that a good part of this €40 million this year particularly is also going towards the construction of the two planned buildings I referenced, and one of the planned building is at INA location in Talegaon, the other belonging to legal entity Schaeffler India Limited at Savli, so a good part of the €40 million is going towards these two and roughly the split between the legal entity Schaeffler India is half of the €40 million and the other half is shared between LuK and INA.

Kunal Bhatia: And sir especially in these Talegaon and Savli, what kind of bearing capacity are we increasing?

Dharmesh Arora: So, Savli as you know we produce the deep groove ball bearing Gen-C, low noise, high efficiency bearings which go into two-wheelers, which go into consumer durable goods and so on and on, electric motors and then it also produces large size bearings for large industrial applications like steel mills, cement plants, wind energy mills and so on. So we are expanding the capacity of the large size bearings to make these bearings locally. We are making investments to make the rollers for these bearings locally, so the expansion at Savli as well as Maneja would be to expand our cylindrical roller bearing capacities, we are expanding our TAROL capacity for the railways, we are expanding our capacity for the wind mills or the wind energy, so those are some of the investments going into Savli and Maneja. As far as Talegaon is concerned, Talegaon produces not just bearings which is a small portion of its business which is needle roller bearing, but it produces lot of engine and transmission component. So a lot of this expansion in Talegaon will be to expand our capacities to produce components which go into engines for automotive application.

Kunal Bhatia: And sir just in case of your pro-forma numbers, you have given the margins, but you have not shared the growth, so if I could get the growth in terms of the combined entity, how much was it in case of EBITDA, PBT and PAT for the first three months?

Satish Patel: So, as far as the pro-forma and the growth is concerned, as you know we announced the merger mid of the last year where other two entities being not listed being private companies the quarterly results were not available. So they normally have the results for the full year which are audited as well, but the interim period results were not available. What we could do when we announced the merger was that for the first time we could prepare six monthly results which were audited as well and announced. Therefore, it was possible for us to announce the growth for half year. So for the first quarter of 2017 results are not readily available and therefore we are not able to show the growth. But we confirm that next quarter onwards when we have the six-monthly results, because we have announced six months of 2017 results we will be able to also provide you the growth figures.

Kunal Bhatia: And sir just last clarification, so for this year and next year the overall CAPEX, €20 million - €20 million each for FAG and other two entities would continue or it would be higher for say CY19?

Dharmesh Arora: Well, we had announced that we would be investing at higher levels this year, next year and hopefully in the years to come. So, €40 million is something we have been able to crank up in our pipeline, I think it is not with a question of increasing the capital outlay but also the capacity to execute the projects which take this capital investment. So we are looking at that and saying how we can increase our throughput rate and realize those capacity increases into realizable phase. So that is something we continue to look at that, but for sure I think next year our current outlay is certainly to remain at the level that we are already forecasting for this year.

Kunal Bhatia: Okay, so €40 million each for two years?

Dharmesh Arora: That is right.

Moderator: Thank you. Our next question is from the line of Nikunj Gala from ASK Investments. Please go ahead.

Nikunj Gala: Sir, just wanted to confirm, in your sales mix where you mention your industrial contribution is 81%, can you just help us with the contribution from two-wheeler in that?

Dharmesh Arora: Sure. If you recollect Nikunj, I think we had shared some pretty detailed information when we launched the merger scheme and we had given the breakup of the businesses as to sector level information and so on. But coming back to the information, I think the two-wheeler would be about close to 12% plus, but we will probably come back to that number.

Nikunj Gala: And also in your pro-forma at the company level the segment which you have mentioned industrial and auto 57% and 43%, the two-wheeler would be again classified under industrial, correct?

Dharmesh Arora: Yes, I think Satish just confirmed our sales mix should be 14% of Schaeffler India sales coming from two-wheelers. And your question whether on a combined entity basis the two-wheeler sales will be construed as industrial, answer is a little complex once again. All the bearing business of vehicles is industrial, but we have some engine components that are supplied from INA we book them as automotive. So it is a kind of not exactly very clean but that is how globally we run our business and we consider all the typical bearing business into industrial for two-wheelers, but if we are supplying some engine components out of INA they are considered as automotive.

Nikunj Gala: Like usually we consider two-wheelers, tractors, PCs into this entire net into automotive customers. So can you just help us with this breakdown, how much would be going to two-wheeler, CV, passenger car, tractor and how much would be pure industrial?

Dharmesh Arora: You would like to know from Schaeffler India Limited's point of view?

Nikunj Gala: Yes.

Dharmesh Arora: Commercial vehicles and two-wheelers?

Nikunj Gala: Yes. And passengers also.

Dharmesh Arora: Would we have that numbers? That is not the way we analyze, so my apologies, I may not be able to give you that numbers right now at least. Roughly I can give you some guideline if that is absolutely an important number for you, I would say 10% or 14% of Schaeffler India Limited's business is two-wheeler, at a consolidated level that will become half that contribution. So if you were to add to the 57% automotive, another 6% would make automotive plus two-wheeler Schaeffler India Limited and that would be in my opinion not too far off from what you are trying to get to. But once again that is a very high-level sort of back of the envelope calculation for me.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the conference over to Mr. Chaudhury for closing comments.

Vijay Chaudhury: Thank you, Stanford. Ladies and Gentlemen, thank you for participating in today's call. Due to paucity of time we are having to have the call closed at 11. Should you have any further questions you may please reach out to me at vijay.Chaudhury@schaeffler.com. Thank you so much for participating. We look forward to interacting with you again.

Moderator: Thank you very much, sir. Ladies and Gentlemen, on behalf of Schaeffler India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.