“Schaeffler India Limited

Q1CY23 Earnings Conference Call”

April 19, 2023

MANAGEMENT: **MR. HARSHA KADAM – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**

MR. SATISH PATEL – DIRECTOR OF FINANCE AND CHIEF FINANCIAL OFFICER

MS. GAURI KANIKAR – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day and welcome to Q1 CY23 Earnings Conference Call of Schaeffler India Ltd. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Gauri Kanikar from Schaeffler India Ltd. Thank you and over to you.

Gauri Kanikar: Good morning, everyone. Thank you for joining Schaeffler India Ltd.'s Earnings Conference Call for the first quarter ended 31, March 2023. We have with us today, from the management, Mr. Harsha Kadam, our Managing Director and Chief Executive Officer and Mr. Satish Patel, our Director of Finance and Chief Financial Officer. Mr. Kadam will first take us through a short presentation on the results after which we open the floor for questions. Thank you and over to you, Mr. Kadam.

Harsha Kadam: Thank you Gauri and good morning to all of you and a warm welcome to this investor call today. I hope all of you are doing well, today I have with me.

Satish Patel: Hello everyone, Satish Patel, good morning to all of you.

Harsha Kadam: So, let me briefly take you through what happened in the first quarter. I hope you are able to see my presentation. I am on slide one and I move to slide two. Let me start on a positive note by sharing with you some awards that we have received in this quarter. As you all know, Schaeffler India, we are on this journey of ESG and our sincere and committed efforts to run the business through the ESG approach has started to show results and the testimony to that is what you see on the slides today.

The first award that we received was from Dun & Bradstreet. It is an ESG excellence award, and this was clearly the effort and the actions that we are carrying out in our ESG approach and more specifically in our focus on high corporate governance, as well as exemplary corporate behavior that we have been demonstrating over the years.

The second award I would like to touch upon is about the CSR efforts that we carry out and one such initiative amongst the many CSR efforts that we do, was a water conservation project called Jal Sahara and this was a project that we undertook in the Khed Taluka of Satara District and this is an arid region and with a project that we have executed there, which is primarily towards water conservation to bring back agriculture into this region.

This region has not only benefited from increased availability of water for cultivation and agriculture, but another important impact of this project was that it has created a reverse drain of the local population who had moved to the cities to come back and restart their original occupation.

And this particular project was recognized by two agencies, one of which is on the slide that you see. The first agency that recognized this project was the CSR Box and the second one what you see on the slide is the CSR Journal Excellence. N ow having seen the success of this project, we have undertaken to replicate similar projects in the other locations where our plants are located in the state of Tamil Nadu and Gujarat as well.

I move to the next slide, which is going to talk about what I am going to cover today, a brief on the economy and the industry. I would then touch upon the business highlights for the first quarter of 2023 and the last I would look and share with you the financial highlights of the first quarter of 2023.

And with that, I move to slide number four, wherein I talk about the economic outlook and the growth outlook for India. And as you can see from the graph there, the GDP first quarter provisional that has come out is 5.1% for the country and I am sure you are all aware the International Monetary Fund has revised the estimates for GDP for India to 5.9% for this year.

The World Bank still keeps it at around 6.3%. There are compelling factors, the reason for that, why the GDP growth looks a little muted. Obviously, I am sure you are aware with the prolonging war in Ukraine, the tightening up of the global monetary policies and the imposition of economic sanctions there certainly is weighing down on the economic outlook for India as well.

However, on a comparative level, we find that the projected growth rates for the country definitely look better than the rest of the countries in the world. So, rightfully this muted or the decline that you see a bit is definitely going to impact the business in India and we have seen some signals of that happening in our business as well in this quarter.

If one were to look at the Index of Industrial Production, which is for the months of Jan and Feb, it is above 5%, looks pretty promising and we see that reflecting on some of the sectors, definitely beginning to show an uptick. However, some sectors have still shown a downward trend since the last half of the previous year, considering the economic outlook that is outside, which is prevalent due to the geopolitical situation.

Looking into the automotive production itself, what you find is we have seen some small challenges there. However, the automotive production in the country is on track, going pretty well, although the sector is still facing some challenges in terms of chip shortages, which we still experience from some of our customers and some of the segments within the automotive industry.

Talking about inflation, yes, inflation, which was in the last year Q2 and Q3 was at a phenomenally high number that started to moderate down. However, it is still sitting at a higher level of 5% to 6% and that's something that needs to be monitored as well and these are going to definitely have some impact on the businesses that we do as well.

Moving forward, I'd move on to slide number five, where I go into a little more detail on the core sector performance and what you would see here is on the cement production. And as you can see, the month of Jan, the cement production in the country was close to 36 million tonnes, but in the month of Feb as well, it was quite good. March numbers are yet to come in.

All in all, we see that riding on the back of the infrastructure industry push, which the government of India is driving, we see the cement production in the country is set to continue to show a positive trend. And so is the same with the steel sector because these two are interrelated and what we see is both these sectors are doing pretty well.

Talk about the mining and as you can see there again, the bars are showing that compared to the same period last year, the industries have posted good performance comparatively and with mining contributing 11% to the industrial sector, surely this is a very positive trend that we are seeing in the mining sector.

Power production or electricity generation is equally going well, and the core industrial sector seems to be performing pretty well. However, one of the sectors is the renewable energies and that's where we have seen some downtick and that's coming maybe from the wind sector where our customers predominantly leverage the best cost country situation and were using India as an export base. That has come in for some strong headwinds, due to the ongoing geopolitical situation in the rest of the world.

I move to slide number six, some light on the automobile sector and segment performance. Two-wheelers, definitely for the first two months of this quarter, we did see in production numbers were lower than the same period last year. However, in March we have started to see some small uptick. Hopefully, in the succeeding quarter, we will definitely continue to -- we hope and estimate that the numbers will definitely be better than the previous year.

Passenger vehicles on the other hand, have shown strong performance when compared to the same period last year and we have seen the numbers go up in the range of 400,000 vehicles a month in the first quarter itself, compared to the 350,000 vehicles a month, being produced in the passenger vehicle segment. Commercial vehicles, on the other hand, while January and February did show very positive growth, in the month of March was a little muted, again coming on the back of some export drop that we have seen in the commercial vehicle hence from some of the customers.

The tractor segment, which had already reached a pretty high base levels, but we have seen the last two quarters had begun to go down, and we definitely now see the first quarter showing a strong recovery and in the range of 85,000 tractors to 90,000 tractors a month production, we are seeing a much stronger bounce back from the tractor segment in the first quarter of this year.

Having said that, I move to slide number eight now and talk a little bit about the earnings quality that we have been able to deliver in the first quarter. On the back of the odds much better automotive technology sector performance for us, the divisional performance in spite of some of the headwinds that we faced in that sector as well due to the chip shortages and the mixed effect that we faced because of some of the product applications like tractors, the dual clutches were not so much in demand. In spite of that, we were able to post a much better performance in the auto technology sector.

However, in the wind, as I already mentioned, the wind energy sector impacted the industrial business significantly. On the e-mobility, I would like to share a very positive and good news that we have one big breakthrough, in our business in terms, of getting a business win from one of the prestigious automotive customers in India and we are now in a position to preparing the groundwork to deliver two-in-one e-axles – electric axles for the electric passenger vehicle segment with this customer. And we are estimating the start of production to happen sometime next year, middle to the second half of the next year. We should be starting off the series production of the e-axles, which we have now won.

In spite of the challenges that we faced on the top line, the quality of earnings we were able to hold in spite of the strong headwinds and the drop in the top line. And in spite of all these challenges, we stayed focused and committed to continue on our path to run the business the ESG way. Our focus on the environment, social and the governance aspects, will be there and will continue to go on.

So, coming to some of the numbers, as you can see the sales performance, our revenues grew 8% over the previous year. However, over the preceding quarter, what you see is, we were down 5.6% and we ended the quarter with INR1,693 crores. When you look at the EBIT margin, we retained the EBIT margin at 16%, which was more or less the same level. And if one were to look at the preceding quarter, we had ended that quarter with an EBIT margin of 16.2%, and we were able to bring in an EBIT of INR 270 crores into the company.

The profit after tax, while on the other hand bringing in INR 219 crores into the system, registered a strong 13% profit after tax margin, which was a decimal better than the preceding quarter at 12.9%. One other aspect, which if you remember in my previous investor call, I did share that one of the focus areas for us was to get into a positive cash flow, free cash flow, and we were successful in maintaining and achieving that in this quarter itself. We are now in a positive situation, and we were able to bring in INR 3 crores into the system as free cash flow.

I move to the next slide and I'm on slide nine. I did touch upon a little bit on the new business wins. And as I said, we are proud to share that we have won our first system-level solution offering, in the electric vehicle space with the two-in-one electric-axles for the e-mobility solution here.

Apart from the fact that, we already service the customer for this very application with bearings, which go into the electric vehicles, this is the pure electric solution that we are bringing into India now and currently the stage at which we are in, the sample preparations are underway, and these will soon be delivered to the customers, and we will be starting off the field tests with our solutions on the Indian roads for this customer.

Meanwhile, we also had some good business wins on the double-clutch systems in the commercial vehicle segment, as well as some wins in the alternative application, which is one of the critical applications, in the passenger vehicle segment. I'm on slide number nine, and I would like to start again from this slide.

As I already said, we have had some major business win in the electric vehicle application for a passenger car customer in India and this is a system-level solution that, we have been successfully able to design and develop for this customer and this is a two-in-one e-axle that we would be selling apart from, of course, our usual foundation products of bearings, which is going into the electric vehicle as such and we are at a stage wherein the sample productions are being made ready so that we will be submitting the samples for this two-in-one e-axles to this customer and very soon the field tests would start on the Indian roads.

Apart from this, in the commercial vehicle segment as well, we have had some new business wins for the double clutch systems that we sell into this particular segment and some wins in terms of alternative applications, alternative pulley wherein a bearing with a pulley goes as a subsystem solution and we are able to, you know, we have won these orders as well in the passenger vehicle segment.

Coming into the automotive aftermarket or the products, new products that we have launched, the white labeling products that we have launched in the past, we have started to leverage and grow the volumes. We have extended the reach pan India now and we have started to look at more opportunities to bring in some of the new business wins in particularly in the areas of front-end auxiliary drive systems, the timing kits and some taper roller bearings also in the passenger vehicle segment. So, we will continue to keep the focus on expanding our portfolio here and we are sure that you will hear in the next investor calls as well more new products that we will be bringing into the automotive aftermarket space.

Coming into the industrial space, we have started to gain more wins, more with the localization projects that we have been running both for the domestic need as well as for the exports, the angular contact ball bearings and the needle roller bearings both within the industrial automation sector, the two-wheeler segment as well. We also have started to gain some new wins within the off-road segment with some of the new products that we have brought in under our localization program.

Strong wins we were able to get in the industrial automation sector again for the linear motion devices and with the acquisitions that we have made recently in terms of Ewellix as well as in terms of Melior products, we have started to gain more new businesses here.

I move to slide number 10 and come to the last item which is the financial highlights on 11. I am on slide 11 now and as you can see the snapshot here, the revenue from operations while a quarter-on-quarter growth was minus 5.6%. A year-on-year, we were able to register a positive 8% growth. Look at the revenue bridge, where did this come from..

Good growth coming from the auto technologies sector. The automotive aftermarket also brought in some positive contribution to the growth. It was in the industrial sector that we did have some de-growth because of the impact coming in from the wind segment as such. Our exports too contributed positively. However, we have seen a bit of a slowdown in the export considering the fact coming on the back of some situations which is outside India but also it is to do with the lag period that we have in terms of fulfilling the orders as well.

So overall, looking at the sectoral growth as you can see, I did already say that the automotive technologies year-on-year was strong at 21.1% for the quarter, automotive aftermarket at 17.4% whereas industrial was a minus 8.5% and exports too grew in double digits when compared to the same period last year. However, our biggest strength being the balanced portfolio that we talk about still stays good for us. It holds us in good stead and as you can see, automotive technologies and the industrial part of the business is fairly well balanced and our exports for this quarter were about 16% of the total revenue that we generated.

Moving on to slide number 12, throwing some light on the earnings quality. As I said earlier, we have been able to sustain EBIT margins at 16% and if one were to look at it, definitely there has been a 7% drop over the preceding quarter. However, on a year on year, as you can see, we have improved 4% there. And where has this come from? The bridge is going to throw light on it.

Clearly in terms of the gross margin that has brought in close to INR 417 million, some of the employee costs that we have had because of the expansion projects that are ongoing already at our Savli plant, we have started to increase and add resources there and the depreciation of course is being a small number. And then of course, look at the profit after tax, which I already touched upon. The quarter-on-quarter growth over the preceding quarter was minus 5% whereas the year-on-year still stands at about 6% positive as you can see.

I move to slide 13, throwing some light on the working capital and capex picture and the free cash flow. So, as you can see, we have now brought back the working capital to around 19%, 20%, which is something that we would love to maintain. This is to ensure our service ability to our customers.

And coming to the capex, as you can see, this is where we stand committed to increasing our capex spend. And if you were to look at it, the same period last year, the capex spend was 3.5% of sales and this quarter we have hit almost doubled it to 7% of sales. A clear indication that we stand committed to increase our capacities in India, leverage the cost competitiveness of India as well here.

Talking about the free cash flow, I did already touch that we had put in some clear focused action plan here to remain a free cash flow positive right from the first quarter, and we have done that in this quarter, starting off the quarter with INR 31 million of cash inflow into the system. And this is something that we have now achieved as well. And we will continue to keep this trend in the succeeding quarters as well.

With this, I move to slide number 14, which is going to throw some light on the indicators of performance. So just to summarize, yes, the revenue growth year-on-year was 8%, but on the preceding quarter, it was minus 5.6%. Our EBITDA margin stands at 19.1%, which was at the same level as the preceding quarter. And the EBIT margin remains at 16%.

We have managed to hold with all the countermeasures and the cost control measures that we have put in place. What has helped us to hold on to these margin levels is the operational efficiencies that we stayed focused upon from our operations and the focus that we had kept and the actions that we had put in have started to hold our return, give us the returns that we were expecting as well. With all this, I must say, in a challenging quarter with some of the strong headwinds that we faced in some sectors, we still posted a strong bottom-line performance.

With that, I move to slide number 15. And I would like to summarize in a nutshell. Our business portfolio, which is quite balanced between the automotive and the industrial, has once again helped us to manage the situation in terms of the profitability performance in a much better way. While we are on this journey, we definitely see challenges. However, we are now reinforcing and re-augmenting our efforts in terms of counter measures. While we are focused on our operational efficiencies, we continue to work on them and we are doing some course corrections, to get the top-line back on track, as well.

Coming to the capex, well, we will continue to invest actually, and we would be continuing at the same 6% to 7%, of the capex that we have already started off this quarter. Having said that, we will be cognizant of all the volatility that still prevails in the marketplace, but we will definitely put in some actions there to do very agile course correction, as well.

We will continue on this journey. We will continue to keep the focus on our environmental efforts and initiatives and the social activities that we are driving with the community around as well as, we will remain a very governance-driven organization.

So, with that, I come to an end and thank you for your patient listening. We now move to the Q&A.

Moderator: We have our first question from the line of Ankur Sharma from HDFC Live. Please go ahead.

Ankur Sharma: Hi, sir. Good morning. Thanks, as always, for the detailed presentation. Three questions, which I had though. One was starting off with on the export side, where clearly on a sequential QoQ basis, we have seen an 18% drop and you did talk about some challenges in certain regions. So, if you could just help us understand where is this slowdown being seen?

I remember from your last call, you said you are equally divided between US, Europe and APAC. So, which regions are where you are seeing this slowdown? And I think you also mentioned in one of your comments that you could not fulfil some orders, if I heard you right. So, if you could also elaborate there and how do you really see exports kind of fairing, in the coming quarters?

Satish Patel: Thank you, Ankur. Satish Patel here. Let me answer. I think it is a good question. As far as the exports are concerned, if we look at the overall contribution of exports in the last year, which is 2022, was close to about 18% exports and others, we call it as 18%. Others include certain non-export related income, as well. For this quarter, it is 16.2% and you rightly pointed out that there is a drop in exports on a quarter-on-quarter basis, by 17.7%. Our exports are actually geographically in terms of the overall division of the exports. We have about 40% exports to Germany and if I add some other European countries, then close to 48% to Europe, over 40% to Asian countries and between 10% to 15%, to US, basically North America.

Now, we have a strategy that's what I mentioned last time as well, of certain relocations happening from Europe to India, for the demand and the production relocation. That is actually as per the plan, it is progressing quite well and this year, capex, which we have earmarked about 30% of that, is going for relocations and the capacity build-up for exports. So, our sort of strategic plan of focusing on exports, increasing the exports, relocations, capex, all that is very much on track.

However, FY Quarter 1 is concerned, there has been some course correction happening globally, particularly in Europe, mainly, on the inventory side. Our customers are actually having some sort of a short-term action of inventory correction that has caused little slower demand for us, in the Quarter 1. We hope this is short term one time and this is not going to last too long. There is a very small, relatively small impact of the global demand conditions, as well.

But as I have been mentioning that our exports are driven by a strategy of relocations, global decline in the demand is not going to cause a significant dent, in our exports because they are strategic in nature and therefore, the global demand cut, has contributed slightly. So, quarter-on-quarter 17% to 18% decline is definitely because of this reason. However, if you see year-on-year, there is a growth by about 10%. Also, our order book position is quite strong. So, we do have close to one year of orders already booked and we are expecting to serve based on that order position, throughout the years.

So, still the outlook for exports remains quite strong, positive. But yes, there has been this quarter, which has actually witnessed a drop in the export. Please be also mindful of the fact that last year, we have already grown exports by about 60%. We are talking about growth over that 60%. So, therefore, we would not have every year of 60%. But yes, our contribution to exports, which is on the increasing trend from 15% to moving to 17%-18%, is going to further increase and will be reaching close to 20% going forward.

Ankur Sharma: Okay, fair. So, basically Q1 is more of an inventory correction kind of a situation, which kind of gets back to normal and therefore, the outlook remains fairly strong for us. Okay, fair. And secondly, sir, on the wind side, I know you've been highlighting this weakness on the wind side. So, how big is wind for us as a proportion of our sales? And are things looking better? Are they still the same on that front?

Harsha Kadam: Okay. Let me start. If you look within our industrial business, wind is quite substantial, almost close to 20% of the business. Having said that, if you look at the market, the number of wind equipment's that are produced in the country, 80% to 85% of that production gets exported out of the country. The rest is only for domestic consumption.

Now, the challenge there is the external environment and the geopolitical situations in Europe, particularly, and with the imposition of sanctions on those countries, associated countries have kind of put, hold on all the projects that were getting executed, in those countries. So, that's the first development that happened in the second half of last year.

Obviously, there is going to be a lag period and we are already seeing now, everyone is now trying to control inventories, the projects have been stopped or delayed. So, we have seen projects being put on hold, not just by the turbine manufacturers, but even by the gearbox manufacturers. So, hence the impact. And we have a very strong presence in the wind market itself, as Schaeffler, and hence, the impact of that slowdown is impacting us and hurting us as well.

Ankur Sharma: Fair. I understand and this one, last one, sir, ex of wind also, if you could talk about the other segments of the industrial side; rail, steel, cement, is the momentum kind of continuing there, you know, or any signs of a slowdown, just some outlook there would be appreciated? Thanks.

Harsha Kadam: Yes, sure. Let me start with the railways. Our performance has been -- at the same steady level as we have been doing. In fact, we have had some good business wins in the railways as well, with the government launching close to now announcing 400 Vande Bharat trains in the next three years. We have already won orders for the Vande Bharat trains and we have started to fulfill those orders as well. So, that's one positive development on the railway sector.

We are now working on a couple of new solutions to get into the freight sector as well, the freight wagons as well. However, that is going to still take some time because we need to prove the product before we bring it to the market. So, that is something that is work in progress.

Talking about raw material, our performance has been pretty good. We have made good in roads and gains in the cement industry where we are predominantly very strong there as such, as Schaeffler. And we have made some good in roads into the steel sector, considering that the infrastructure sector is booming now. And one other sector that I can touch upon is the construction equipment as well, where we have got some good business wins.

So, all those sectors where we have seen, you know, good push by the government initiatives, as well as the market, we have been able to leverage and do well there. Two-wheeler was one of the sectors where we are pretty good. However, as you know, in the last year, the second half of last year, as well as coming into the first quarter, the market is a little muted when it comes to two wheelers. March is one month, we have started to see some uptake in terms of production numbers, but I guess one month is not the right indicator. We will have to watch for a couple of moments to see how this trend is going to develop.

Ankur Sharma: Thank you so much and all the best.

Moderator: We have a next question from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Good morning, gentlemen. My first question is, if you can also explain on the auto aftermarket, because there also we have seen some kind of a sequential weakness.

Harsha Kadam: Well, what we notice is the automotive aftermarket has a cyclical business approach. If you go to the past trends, what we see is it is always in the last quarter of every year that we see a huge spike in demand. And normally the first quarter is always muted, and we have seen it happen again this year as well. So that's the primary reason we see. Well, when it comes to order books, we do definitely have strong order books.

Our strategy to grow the aftermarket business by bringing in more new products that still continues. It's just a business cycle situation that we face every quarter. If you look at the performance, compare it with the preceding quarter, you will always see a big drop. But otherwise, if you look at and compare it with year-on-year, you will find it is a much better performance.

Satish Patel: So, year-on-year, we have grown by 17.5% in automotive aftermarket. Which is a significant growth. Overall automotive business grew close to 20%, which is also supported by aftermarket growth of about 18%.

Deepesh Agarwal: Sure. And the second question is on the e-mobility solution wins. Can you explain what would be our opportunity by year? What would be our content per vehicle year? And would there be room to get into more research platforms with the same customer? And what would be the share of manufacturing from India and how much would be imported here?

Harsha Kadam: Yes. The e-mobility sector that we are now getting into, as you all know, Schaeffler has a very strong lineage in this product line in Europe. We have already been into series production of e-axles, motors. Already in Germany, we do a lot, for all the brands there in Europe. In India, the volumes were still to pick up and we have started to see now good traction in the e-motor electric vehicle sectors.

With that, we have been working with our customers here, many of them, as to what should be our offering. And we have now been able to sign off a new business win for a two-in-one e-axle. Now, what would this entail? It would have an electric motor coupled with a gearbox and over and above that, the power electronics that go with it.

So, this is the offering that we bring in and we have got the first break through. Well, and over the next seven years of lifetime, if you were to see the business volume, it's going to be in the range of close to EUR 300 million. That's the kind of volumes we are talking about coming from just this one business win.

Are we stopping here? Not at all. This is the first step and now we have started to engage with other electric vehicle manufacturers as well. Now, this is giving us the confidence, the first business win is giving us the confidence that, yes, we have learned how to crack the electric vehicle technology for the Indian market. Coming to the series production of this product, the first approach that we are taking is while it is already designed, developed, we would continue to source the product, bring it into India and offer it to our customers.

In the next couple of years, we definitely are putting in plans to start to manufacture them in India for the customers here in India. As you all know, we are already being registered and selected as one of the champions for the PLI and we would love to leverage this qualification that we already enjoy. So, our clear strategy going forward is to start to make this entire system level solution in India.

Accordingly, the industrial engineering activities have already begun to happen and surely, we will bring this product made in India for India in the next few years.

Deepesh Agarwal: Sure. And last bookkeeping question, if I can squeeze, would it be fair to say our volume growth and the value growth would be similar in this quarter? Would there be any pricing actions?

Satish Patel: Not so much on the pricing side. So, volume and value growth, yes, is similar.

Harsha Kadam: Just to add, Deepesh you did ask a question on content per vehicle. All I can tell you is with the system level offerings that we are now getting into for electric vehicle technology, content per vehicle obviously is going to be definitely more, significantly more. And I would say I don't see any reason why it can be double of what it is today.

Satish Patel: But just to add one comment here with regard to content per vehicle, in fact we are rushing when we talk about content per vehicle for e-mobility because that is relevant, the content per vehicle is relevant when we have series production. In IC engine we are at the maturity stage, it's almost established business and you can have content per vehicle, you can monitor your outperformance. In my opinion this KPI of content per vehicle is not valid, not so for the electric vehicle sector as of now. It could be valid when we have really ventured into that space and also have the usual series production.

Harsha Kadam: And also, the economy of scale has to come up in the market which is still not there.

Satish Patel: I would rather request you that content per vehicle should not be so much looked into when we talk about e-mobility.

Harsha Kadam: It is the value of the offering should be more relevant, that's how I would see.

Deepesh Agarwal: Understood. Thank you and all the best.

Moderator: Thank you. We have a next question from the line of Nikhil Rungta from Nippon India Mutual Fund. Please go ahead.

Nikhil Rungta: Hi sir, thanks for the opportunity. Most of my questions are answered. Just quickly, what would be our share of rail in the total revenue today?

Satish Patel: Share of rail in the total revenue and here I would be specific to revenue industrial because we have automotive and industrial, two distinct businesses. Railway is part of industrial business. When I talk about industrial business, the share of railway within industrial business is around 6%.

Nikhil Rungta: And sir, second question is, last quarter, I mean on this e-mobility segment, on the localization effort, you mentioned that you are trying to work on freezing the design which should get completed in next couple of months and development work was initiated last quarter. So where are we on that localization efforts of e-mobility segment?

Harsha Kadam: Well, I did already talk about the new business that we have secured with one of the prestigious customers for the electric vehicle or the e-mobility and that is pertaining to exactly the reference that I made in my previous investor call where that was work in progress and between then and now, we have now formed up and we have the orders to convert that into series production businesses now. So, the stage at which we are in is the design is frozen, the sample productions are underway and soon we will be submitting to the customer for testing and then by next year we would get into a stage of series production.

Nikhil Rungta: So now the work is at the prototype stage. Can you say that?

Harsha Kadam: It's beyond the prototype stage.

Nikhil Rungta: Beyond the prototype. Perfect, sir. That's all from my side. Thank you.

Satish Patel: And just to add one more comment related to our railway business. Currently railway business is about 8%.

Harsha Kadam: If you want to take the first quarter, it was 8%.

Satish Patel: If you talk about the first quarter, then it is about 8%.

Nikhil Rungta: Okay. Perfect. This is helpful, sir. Thank you so much.

Moderator: Thank you. We have our next question from the line of Vimal Gohil from Alchemy Capital Management.

Vimal Gohil: Thank you very much for the opportunity. Sir, my question which remains is on margins. Did we really see some positive impact of lower raw material prices this quarter?

Satish Patel: No, not so much. So, the price level this quarter vis-à-vis the preceding quarter is similar. And we have, you know, quite a variety mixed of raw materials. At the level of some segments, there could be some change, but overall, there is no significant change compared to the preceding quarter on the cost side, material cost side.

Vimal Gohil: Sir, given the fact that the way raw materials have moved, do you expect some benefits to accrue in quarters going forward?

Satish Patel: If you see last quarter, particularly external reports, some sort of softening is expected, no doubt about that. Steel price softening is happening. Global demand is slightly on a declining trend. And the hike, which already happened couple of years, is saturated now. So, there is some declining, there is some softening expected. As of now, we do not have, you know, really actually witnessed that in the actual performance. But yes, there is some sort of expectation about this softening.

Harsha Kadam: But also, one must see it from an overall perspective and that would be, while it would soften the inflation rate is still high, overall, general inflation.

Satish Patel: And this global phenomenon, Harsha rightly pointed out, is going to play a role because energy prices in other parts of the world, particularly Europe, is very high. That is impacting the prices there of all the input material and to the extent, because everything that we consume is not domestically produced. And therefore, to the extent you are still having, you know, certain imports for the specific type of components, for the specific type of products that will still have some impact carrying on this year as well.

Vimal Gohil: Right. And sir, the purchase of finished goods, so out of your total raw material cost, how much would that be, for Q1, how much would be the imported content?

Satish Patel: So, we look at basically on the finished goods level. So, we look at on the sale side, how much is our revenue contributed by domestic manufacturing and contributed by trading business. So, if we look at Q1 2023, that ratio is about 75-25. 24 to be exact.

Moderator: Thank you. We move on to the next question from Mr. Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf: Yes, sir. Good morning and thank you for the opportunity. My first question is regarding this industrial mix in your overall revenues. Probably saying CY21, it was around 40%, maybe a few quarters even above 40%. Now it's down to 32%. I know you had highlighted that wind has come off, but any other aspects that you see there for this mix to have come off? And going ahead, do you think it will kind of remain at these levels, the industrial mix, given your new order went on the auto side as well? So, some color on how this mix could play out in the future?

Satish Patel: So, industrial business has actually also certain influence of the, when I talk about total industrial business, I am not limiting to domestic industrial business, total industrial business. So, when we talk about our exports, it is also largely industrial. So, over 90% of the exports are industrial business. So, together, exports and industrial, we are 50% in the total business, industrial 50%. And within industrial, yes, there are segments, two-wheelers, off-road, power transmission, railway, raw materials, wind energy, industrial distribution, all of that.

So, like this time, it is wind sector that has contributed to a certain extent decline and thereby the decline of the industry in the overall pie, but since the weightage is 50%, the decline is not significant. And it is for a quarter. So, in my opinion, important is to see the full year, what is the mix, rather than just looking at the quarter. On a full-year basis, we are still about 50% for industrial. 48% to be precise, yes.

Mukesh Saraf: Right. And this localization that, you had mentioned, close to 75%. You also mentioned that 30% of your capex is earmarked for relocation to the export. So, I assume that a good portion of the remaining capex will also be to increase localization. Some of the products that you are importing you want to localize on the industrial side, as well. How are the targets there on localization, sir?

Satish Patel: No, let me clarify. I think what I mentioned about export is relocation, not re-localization, not localization. Localization is basically for other types of business, where we are not so strong for domestic business. So, when I talk about the mix of that 76% and 24%, that we are going to improve, which is entirely for domestic business. Correct. So, we want to actually increase the domestic business, by higher localization. We have already reached close to 78% and we are likely to be around 80%, in the next two years to three years. As far as export is concerned, I mentioned about relocation, which is more of a strengthening the position because of the that competence exists in India and within Schaeffler India. And that is going to drive because of the relocations, the exports. And for that, we have earmarked about 30% of the capex.

Mukesh Saraf: Got that. And just lastly, if I may, you had mentioned about Vande Bharat orders. Any quantification you can give, say, on the value of some of these orders that you might have for the Vande Bharat?

Harsha Kadam: I'm afraid at this point in time, I can't reveal those numbers. But certainly, rest assured that we have won project on the Vande Bharat already. And as more trains come in, we will definitely be getting more such businesses. Fundamentally, these are on suspension, rods, bearings, as well as on the traction motor bearings, both.

Mukesh Saraf: Right. Great. All the best, sir. Thank you so much.

Satish Patel: Thank you.

Moderator: We have our next question from Harshit Patel from Equirus Securities.

Harshit Patel: Thank you very much for the opportunity, sir. Sir, my first question is on the industrial business. As you have mentioned, we derive almost 20% of industrial sales from wind, another 6% to 8% from railways. Could you also mention the contribution from other sub-segments, like two-wheelers, off-road vehicles, steel, cement, automation, and it will be very helpful, sir?

Harsha Kadam: No, certainly, we can mention that. But this is the information we have been sharing. We have uploaded a large overview document about the company, on our website. We have provided certain details about this. And in case you wish to obtain further detail, please do reach out to our IR head and she would be pleased to provide. So instead of spending time here, calling out those numbers, I think it would be appropriate if you reach out to her and she would be pleased to provide some numbers.

Harshit Patel: Sure, sir. We will do that. So, my second question is on the accounting front. Despite we have been incurring so much capex in the last few years, and also, we are going to step up our capex further, as you have mentioned, we have not seen a commensurate increase in the depreciation level. So, could you throw some light on that?

Harsha Kadam: Yes, so we do have replacement of the assets, which are due, and which have been actually still in operation for longer than the life cycle. And the machines and equipment have been, quite many of them either refurbished or have been improved for the performance. And therefore, the additional depreciation of the capex that we are incurring is partly offset by written down value of the existing assets, which have already passed through the lifetime. So, this is one reason for not significant increase in the depreciation.

The second is the capex hike is of late happening. So, you see, last year is the first year, where we invested INR500 crores. Going forward, that is this year and next year, we will invest, the impact of the depreciation is going to come later. But again, there would still be compensation coming from the assets, which are quite old and still in use and they are quite sort of efficient and also technology-wise, quite strong, quite effective to use. So those assets are helping in our plant and machinery overall, in terms of depreciation.

Harshit Patel: Understood Sir. Thank you very much for answering my question.

Moderator: Thank you. We have a next question from the line of Nikhil Kale from Invesco. Please go ahead.

Nikhil Kale: Thanks for taking my question, sir. So, I think this is regarding the content per vehicle. I think one of the earlier comments you mentioned is that for IC technology or IC vehicles, there is a fair sense of the content per vehicle. So just wanted to understand. So, for some of the legacy clutch and transmission products that we supply, what would be the broad ballpark kind of content per vehicle that we have?

Satish Patel: So, we do not do content per vehicle at that product level. We do content per vehicle overall. What are our overall sales and what is the total vehicle produced. And that gives you the result as content per vehicle. So, content per vehicle was around EUR 38 for the IC engine, now we are close to EUR 45.

Nikhil Kale: Okay. So that is effectively the revenues that are spread across the overall production that is done in India, right?

Management: Yes.

Nikhil Kale: And sir, I missed the number, I think the new e-axel order that you got, you mentioned some volume number over the next seven years lifetime of the product. Could you just repeat that for me?

Harsha Kadam: Well, as I earlier answered, we have secured this business with a clear lifetime business close to EUR 300 million. Well, quantification, I don't have the numbers in exact.

Nikhil Kale: No problem, that is the number that I was looking for. Thank you.

Moderator: Thank you. We have a next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Yes. Hi, good morning, sir. First question is pertaining to a comment in the annual report that we have introduced Schaeffler Lifetime Solutions, for our customers and we are also looking at increasing the mechatronics contribution. I just want your comments, if you can explain what this entire venture is about, how do you plan to grow this business?

Are both these things interlinked, that is the lifetime solutions as well as mechatronics or they are different solutions that you are providing? Some elaboration will help over here.

Harsha Kadam: The Lifetime Solutions that Schaeffler has brought out being state of the art, with the latest technology, is focusing on improving and addressing the plant reliability and efficiency uptime needs, of our customers. Fundamentally, what we offer here are sensors, with software and algorithms, which is going to analyze the cause of or the condition of the health of the equipment and it is a real time analysis, that happens on handheld devices. The end user can just download it on his phone and use it. That is the technology. But apart from that, we are now expanding the portfolio towards lubrication systems, which are integrated with these lifetime solutions.

So fundamentally we are talking about everything that goes around to ensure the optimum performance of our products that we sell. One, and also to keep a health check on the products that we sell, thereby contributing and adding value to our customers by way of machine uptimes and help them to improve their reliability.

Now with this offering, we have now, when you look at the applications it is industry agnostic. It goes into every field, every application. So, we realize that the strength and the need is more in the process industries like steel, cement and that's where we are currently focused. But we have now started to expand into even food and beverage industries, as any line stoppage there would mean a lot of value destruction for the customers and that is what we are targeting.

So, we have started to now expand the market footprint here in India, starting off with some of the continuous process industry sectors. But clearly our plan is to expand it across to all applications because this is industry agnostic, and it can be used in every manufacturing area. Hope I have answered your question.

Sandeep Tulsiyan: Yes. And also, the mechatronics piece, if you can just address that?

Harsha Kadam: The mechatronics part here is, we have set up a mechatronics center here because mechatronics becomes just one part of the entire project development process. So, if I were to develop a new solution, mechatronics would be one element in that entire development process and that is a special competency that we need. So, we have now set up a center close to about 250 engineers working on projects. They not only work for projects across the world sitting here.

As I said, the mechatronics center that we have set up here is to help in the design and development projects that we undertake here. Close to 250 engineers working here for projects, which gets offshored from Europe as well as projects in India. Mechatronics is just one element in the entire solutions that we develop. So, depending on the project, where mechatronics value addition is required, we bring the mechatronics team into the project development effort. Hope I have answered your question.

Sandeep Tulsiyan: Yes, that was helpful. Thank you. The second question is pertaining to these new business wins, we have been consistently announcing all of these new orders that we have been winning across quarters. Is it possible to quantify how much revenue last year the whole of CY '22 would have come from this new business wins, in the year prior to that?

And also, an associated question is, when you go through the list of new orders that you won and announced in the annual report, a lot of them are in actually the tractor clutches portion and also the heavy clutches on passenger cars. So, on the tractor portion also, if you could give some color on your content per vehicle, how that has increased with this new clutch wins, that we won in the last few quarters?

Harsha Kadam: First and foremost, Sandeep, we do not have the cumulative numbers of the new business wins. As you know, when we start, we announce the business wins and we share it with our stakeholders, when we you know get the breakthrough. So initial numbers would be very small and it's a lifetime volume that we talked about, over a period of five year to seven years. So, for me it's difficult to kind of you know pinpoint and say okay, we did this much business. So that's the first thing.

Secondly, we share all the business wins that happen in all the three business verticals. Whether it is the auto technologies or the automotive aftermarket or even the industrial space. You know and it's on a variety of products as you can see and some of the business wins that we talk about also is from the new products that, we launch. Yes, so there is a gestation period for the volumes to pick up as well. So, I wouldn't be able to give you the numbers but certainly this is going to be a continuous pipeline of products that we keep the focus upon.

The other part of your question was on the content of vehicles for tractors. I don't have the number for tractors as such but yes, the clutch is one of the most important business portfolios that we have there and we are very strong in the clutch, dual clutch applications, for the tractor segment. And we continue to even today roll out new designs of clutches for our customers there.

Sandeep Tulsiyan: Got it. Alright sir, no problem. Thank you and thanks as always for your kind of views on the whole thing.

Management: Thank you.

Moderator: Thank you. We have our next question from the line of Rushabh Shah from O3 Capital. Please go ahead.

Rushabh Shah: Sir, you said that it's written in the investor presentation that there is a slowdown in the industrial segment but sir overall, we are seeing that there is an increase in the order book across the whole sector. So, is it client specific, we are talking about or is it something related to the whole sector? If you can give me some gist about it, sir?

Harsha Kadam: I did already talk about it that, we are seeing strong traction in some of the industrial sectors, correct? As I said earlier, we have seen on the cement, steel, you know some of the process industries definitely, there is a strong traction there. Riding on the back of the initiatives that the Government of India is also driving, particularly on infrastructure development, so obviously the cement and steel sectors are benefiting from it and consequentially, we benefit from it as well.

But there are a few sectors like wind, which I have already named, and we have a very strong play in the wind sector and since wind is going through some challenges due to the ongoing geopolitical situations in Europe. So, we have a mixed bag here. Some sectors yes, some of them are helping us, some of them for this quarter have not been so good.

Moderator: Thank you. We have a next question from the line of Mahesh Bendre from LIC Mutual Funds. Please go ahead.

Mahesh Bendre: Hi sir, thank you so much for taking my question. Sir, industrial business has slowed down in this quarter. So, do you see a recovery happening over the next two years, three years, next two quarters, three quarters or you think, the current situation will prevail for at least next six months?

Harsha Kadam: Well, I certainly hope that the market bounces back as soon as possible. But some indications that we have got also from our customers, and they believe the second half of this year should definitely show some better traction, when it comes to the wind, but I guess it's all about waiting and watching as to how the market will develop here.

Satish Patel: And other sectors in industrial, if I take out wind, all other sectors have grown and quite strong growth this quarter. So, because industry has almost seven sectors, eight sectors, so yes, the wind business is actually a setback this quarter, but other sectors have grown and are likely to grow.

Harsha Kadam: If you look at the automation, the power transmission, the raw materials, all the sectors have done well except the wind.

Mahesh Bendre: Sure, and sir, in the earlier report, you have mentioned that 60% of revenue comes from the bearing business and 40% is non-bearing business. So, what was this contribution approximately over the last maybe three years, four years back and how do you see this mix changing over the next two years, three years given the new product launches, we're talking about EV and so many things?

Harsha Kadam: Well, the trend in the past has been that the ratio remains similar. Okay, now going forward as the electric vehicle volumes definitely pick up because the offering, the value of the offerings is much-much higher, substantially higher, when compared to what we sell today. So, I expect that it's going to balance out, probably it's going to become evenly distributed between our bearings and the non-bearing business.

Satish Patel: And like content per vehicle, this ratio of bearings, non-bearings for e-mobility, we should at least look at, when we are at inflection point. We are not at that level yet.

Harsha Kadam: It will take some years, but certainly it's going to come to an even…

Satish Patel: Till then this ratio of our bearing, non-bearing will continue more or less. 60-40 would be an end.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to Ms. Gauri Kanikar for closing comments. Over to you.

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

Moderator: 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)

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