“Schaeffler India Limited
Results Conference Call”

April 28, 2021

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Moderator: Good Morning, Ladies and Gentlemen, Welcome to Schaeffler India Limited Results Conference Call for Q1 Results for the period ended March 31, 2021. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your 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. Ladies and Gentlemen, Welcome to the Results Call for Schaeffler India. Today, we have with us Mr. Harsha Kadam, CEO, Schaeffler India and Mr. Satish Patel, Director of Finance and CFO, Schaeffler India. As we speak this presentation is getting uploaded in the exchange as we are all working from home we are finding a little bit of technical challenges, but as during the call I am sure in another 10, 15 minutes I hope it gets uploaded and we will also get the link and I will now hand over the call to Mr. Kadam who will take you through the presentation on our results and over to you Mr. Kadam!

Harsha Kadam: Thank you Vijay and good morning to all of you, welcome to this investor call and I hope that all of you and your families are safe and healthy in these challenging times. I would like to begin my presentation by giving you a little information and update about the return of the COVID wave 2 and I am on to slide #2 and as you all know wave 1 with its impact on and challenges on the business and life at large, but the ominous return of the black swan as I would like to call it is like a sequel and this return in the form of wave 2 is posing more challenges new types of challenges as well and as you all been hearing and watching the news the steep increases in the number of cases is just one dimension and the second dimension is also the speed at which the number of cases have gone up across the country is posing big time challenges for the healthcare team as well as the businesses and posing some challenges and risks for the economy at large as well.

While the post unlockdown last year the third quarter and the fourth quarter picked up a good momentum in terms of demand, we saw that further improving when the business moved into the first quarter of this year that is between Jan and March. Having said that, in our operations we began to see the return of COVID posing new challenges and we had to get back to our ways, new ways of working, we switched all our offices and people working in the offices to work from home, we continued to operate the plants as per the statutory regulations so that our customer lines were running, so we kept our lines running, I will meet with a lot of safety protocols and stringent safety measures on the site. We took care to ensure that we started off the vaccination drive across our plants as well and in the offices and I am happy to say as of date we are almost vaccinated 90% and above all the eligible population with the first dose of vaccination. Today we have also gone ahead and carried out full-time antigen tests 100% cover for all people working in our plants and in our warehouses and we have been trying to take every step and measure possible to alleviate the situation and thereby help the plants and operations to run smoothly as much as possible to enable we service our customers continuously.

Now having said that I would like to cover a little bit on the economy and the industry. So as you all know with the lockdown that we had last year, which was almost for a period of two months the economy contracted and that is expected to contract by 8% in the fiscal year 2021 that is between April 2020 to March 2021. Now having said that in the last quarter the economy kind of broke even and crossed over the GDP growth was around 0.4% in the last quarter of last year. The inflation also began to come down albeit with the rise in fuel prices, which was one of the challenges during the last quarter. When you look at the index of industrial production you will find that there again the positive turnaround began to happen in the core sector outputs as well as the index of industrial production, in fact in the first quarter around the month of February the PMI index touched an all-time high of 57.5, which happened to be the highest ever since 2012. However in March we began to see a dip in the PMI index to 55.4.

Coming to the core industries too, although there was a lag in the core industries sector catching up, the auto industry was the first to show a bounce back and slowly the core metal industries to begin to come back on track and some of the measures that the government took during this period with the Make in India.

Moderator: Sorry to interrupt Sir this is the operator. Sir I would like to make a small announcement on the call. Ladies and gentlemen please note that the PPT is now live at the exchange. Thank you. Sir you may please proceed.

Harsha Kadam: Thank you for that. Well for the benefit of the people I am currently on slide #4 that is the economy rebound with looming concerns over resurgence of the COVID-19. So if we are all on the same page I would like to move forward and while the inflation was one of the niggling irritants during this period. As I said earlier definitely we saw a recovery in all the economic parameters and with the government driving with its measures on renewed vigor in the Make in India campaign, the announcement of the vehicle scrappage policy in the budget, the new economic and a new education policy that was rolled out as well as the farmers bill, all getting together to propel the economy back on track with easy availability of liquidity as well in finance, so with all this the one question on everyone's mind was what is the kind of recovery and all kinds of alphabets were being put to it, is it V recovery, J Recovery and so on and so forth. However the pundits have now started to forecast that the GDP growth would be around 11.5% in the coming year 2022. Well what was not foreseen is the impact and the resurgence a very strong resurgence in the wave 2 of COVID-19 and we will have to see how the entire country as a whole will gear up its resources and capabilities to deal with this current situation.

I will move on to the next slide which talks a little bit about the core industry sector and when you look at the cement production in the country although it was not for the month of Jan and Feb as they shown by the green dot here, which it is still not at the level as it was in the same months of Jan and Feb last year, but certainly the trend has been on the increase and with the push on the infrastructure projects with the road building targets being increased up to 40 kilometers per day and with a lot of investments being made by the Indian Railways in track expansions we see a resurgence on the cement production in the country. Look at steel production, steel in fact showed a much better productivity rates in the first two months of the year when compared to the same months of last year as you can see on the slide and the mining sector was one of the biggest gainers and as you can see coal production to started to look up and is showing a strong recovery trend. Electricity generation in terms of the kilowatt hours has been on the strong upswing clearly pointing to the bouncing back of the automotive sector and the demand for energy that is being pulled by the industries collectively.

So having said that let me take you now to the next slide, which will talk a little bit about the resurgence of the automotive sector in the country. What you see here is the first quarter production numbers and you will see that in every sector and every segment of the automotive industry we have seen a strong rebound. As you can see here on the table to the right between the year 2021 and the 2020 you can see the average vehicle production is already phenomenally at a very high numbers of almost 25% point. Now look at the two wheelers has shown a strong bounce back month-after-month the highest being the month of March where 2 million two wheelers were produced in the country and of course the next bar, which you see April and May are low because of the lockdown we had last year, we will have to see how this year comes out. Now looking at commercial vehicles, which has also seen a strong recovery in terms of thousands of unit as you can see we have the March production numbers of 78000 is almost close to the number that was produced in January last year. So a strong recovery from the commercial vehicle segment as well. Look at the passenger vehicles I must say this has been one of the strongest performing sectors as you can see there and very clearly 374000 vehicles being produced the automotive sector has been a strong gainer coming on the back of a very positive consumer sentiments and the personal mobility demand going up as well as the liquidity of finance and also some of the purchasing cost that was softening as well, so all this put together have kind of propelled the automotive industry and we have seen the cascading effect of this industry on some of the other industrial sectors like the machine tool industry, which was with a very sluggish demand in the last few years have also started to recover. Tractors have been having a dream run even during the last year and what you see here is very strong average production of close to 100000 tractors a month when compared to the 70000 tractors a month of last year. So even in the first three months we have seen an average production close to 100000 tractors and all indications of this growth will continue.

Moving on I would now like to move to the next slide, which is the slide on key highlights and key business developments. While we were going through the challenging times last year we got into our act of putting counter measures to handle the challenges that we were facing. We will put counter measures on the business front and began to expedite our developmental projects on new businesses and we were successful in taking a lot of new businesses to a closure and the result of that is what you see on this slide. Let me start with the one on the left side, which is the industrial division and there you see that we were able to launch plate of new products on the spherical roller bearings and the tapered roller bearing, this is primarily exactly in line with the localization strategy and we are trying to now manufacture more and more products in India within our Indian plants rather than continuing to import them and primarily targeting some of the sectors which are the railway sectors and the wind sector and as you can see this is definitely now making the products available with the shortest possible lead time and very competitive prices as well. The other product line which in my last investor call I did touch upon was the linear motion guides primarily targeting the machine tool industry we have now set up a local operation here to customize and deliver the linear guide assembly systems for the machine tool industry customers and we started operations of that in the last quarter of last year and we have started to now gain traction in terms of order booking for the assembly guide of a product line and this facility is based in our Maneja plant in Vadodara. Obviously going forward we will continue with this strategy of further localization and add more capacity as we move forward.

I move to the automotive technologies box, which is in the middle of the slide what you see and here one of the challenges that we went through was the industry transiting from BSIV to BSVI and I must say that all transmission products mainly the clutch business or clutch products played a key role in enabling this transition and bringing in more value to our customers and we were successful in closing a lot of projects with our customers wherein we were able to bring in new products with the dual clutch assembly systems and some of the engine application products as well and with this we were able to ride the wave of the growth that the automotive sector was showing as well as we were able to increase our content per vehicle, which is still somewhere around €37 last year we have now crossed the €40 per vehicle barrier and surely we will continue to work on this to move further up in our content per vehicle, which is one of the key parameters that we measure our performance here.

I would like to move on to the last box, which is the automotive aftermarket and in spite of a challenging year when all of us were working from home last year we did get our act together to launch the Schaeffler True Power brand in the automotive aftermarket space and as a result of that the first product we rolled out under the Schaeffler True Power brand was the engine lubricating oil and this oil which is compliant to the BSVI application as well and of course we have a clear plan and the roadmap to launch plethora of products under the Schaeffler True Power brand going forward and we will see here more products coming under this brand that will get launched some of it which is already in the pipeline or the coolants for the radiators of cars and vehicles and also we are getting into slowly transmission solutions for the light commercial vehicles. So we have been very active as you can see not just on the front end of the market but on the developmental side, our R&D teams have been working extensively to ensure that we have these products meeting the new demand specifications, new performance requirements of our customers and we have been consistently focused and this has contributed to the performance that we have been able to get in the marketplace.

Moderator: Ladies and gentlemen, thank you for patiently holding we now have the line for Mr. Kadam reconnected. Over to you Sir!

Harsha Kadam: Thank you, I am sorry for the glitch the call sent through and now I am back. I am now moving onto slide #10, which is talking about the first quarter performance a snapshot. So the two messages in the first quarter, which I would like to share with you in spite of the challenges that we stayed focused on our employee health and safety and effectively we are trying to manage, we continue to manage the situation even during the first quarter with the challenging times that we are going through.

Secondly we saw a robust demand uptick from the automotive technology very strong demand uptick even the automotive aftermarket too we saw a jump in demand and the industrial too was not far behind, most of the sectors within the industrial space were back on track with a strong demand coming back there as well. With all the focus that we kept on servicing our customers during the entire part of last year I must say that as they say the proof of recovery has been the key thing and our customers came back to us with a recognition for the services that we rendered and just to name one of them here which we tried on it is that we got recognition coming from Hyundai Motors India Limited where they recognized us with a Gold Award for our excellent sales levels in the year 2020 in the supply chain in the logistics area. Amongst 171 suppliers only three suppliers were recognized and we are proud to say that Schaeffler India was one of them.

The other message positive side which I would like to share with you is as a result of the efforts that the entire Schaeffler India team put in as well as keeping the focus on the market and also help from the market due to the uptick in demand we were able to post a strong performance in terms of sales revenue as well as our EBIT margin and the free cash flow was another positive area that we were able to strengthen our position, but of course as they say there are always some challenges in any opportunity and we began to see a new kind of challenge and that was the rise in commodity prices, which started to happen towards the end of Q4 last year and spilled over into the first quarter so the steep rise in steel prices is one of the concerns that we are battling with currently and this is putting some pressures on margin erosion. The second one obviously is the resurgence of wave 2, which I have already talked about and if we do not manage this well as a nation can derail the growth momentum and also dampen the demand and that is the risk we are steering at, but however we will move on forward with very cautious optimism on this.

To give a snapshot on the performance our revenue for the first quarter as you can see we closed the quarter with 1316 Crores, which was 41.8% better than the same period last year and 3.4% better than the previous quarter of 2020. Look at our EBIT in the first quarter we posted 117.8 Crores as EBIT and that was clearly 82.8% better than the first quarter of the year 2020 and we were down 5.5% over the last quarter Q4 of 2020. As I shared earlier the new challenges in terms of rising commodity prices and a few other cost increases did put some pressure on the EBIT margin. Look at the profit after tax we were able to close the first quarter at 139.5 Crores, which is clearly 78.1% better than the first quarter of last year and about 1.2% lower than Q4 of 2020. On the free cash flow we were able to bring in 184 Crores into the system, which was 28% better than the first quarter of last year; however, it was lower by about 47% over the previous quarter Q4.

I move on to the next slide which is giving you the revenue from operations and the strong demand and the new business win. So as you can see from the green bar we were able to perform significantly better with 42% year-on-year growth in terms of revenue and the bridge below the revenue bridge gives you a clear picture of where did this come from and the delta difference increase that we were able to secure in the first quarter mainly came from the automotive technology vertical, which brought in almost 203 Crores in terms of sales revenue as you can see, the industrial also brought in about 115 Crores in terms of revenue increase and the automotive aftermarket brought in about 20 Crores and we were able to also grow our export business significantly close to 50 Crores we did and the consolidation of this was a clear jump in revenue in the first quarter as you can see. So the growth momentum continued and we were able to capitalize on that and the demand uptick also helped us to load our plants effectively and we definitely had a higher capacity utilization during the first quarter in fact we have seen one of the highest capacity utilizations in the last many quarters coming in this first quarter due to the good demand and the good loading of plants. In terms of the sales mix yes since the automotive technology vertical demand was very high and we were able to do better, so you will see the automotive we closed the quarter with automotive technologies at about 44% of the total revenue, industrial dropped a bit to 37% obviously coming on the lesser growth rate when compared to the automotive and the automotive aftermarket continues to be around 8% of the total sales mix. The exports which used to be around 10% have moved up to about 11% we were able to improve.

I will move on to the next slide which will give the earning quality and as you can see a significantly improved year-on-year and also we were able to sustain a quarter-on-quarter performance. So when you look at the graph there on the EBIT you will find that as I mentioned earlier we were able to close the quarter with a 13% EBIT margin when compared to 10.1% of the previous year same quarter the first quarter of 2020. Obviously, the year-on-year growth in value terms as you can see is about 82.8%, which is significantly much higher. Look at the EBIT bridge and so this delta increase where did we get it from and when you look at it the margin increment obviously came because of the increased volume that is one of them although we did have some obvious unfavorable impact small coming from the employee cost and the depreciations because of a little investments that we made we still have to put it under good utilization and some of the impact that came from other income. So as you can see in spite of the EBIT margin being at 13% when compared to Q1 if I were to draw a conclusion here the first lockdown that was declared nationwide also happened around March 23, 2020, so if I were to put an apple-to-apple comparison as well you will find that our performance in terms of the EBIT margin has been significantly better in this quarter when compared to the last quarter.

So with this strong operational performance or profit after tax we have been able to deliver 10.6% as against the 8.4% of last year and in absolute value terms clear 77.9% better at 139.5 Crores and then I move to the next slide, which talks a little bit about the working capital and our capex situation I must say that worthwhile the working capital definitely shows an improvement as you can see as percentage to sales from a level of 17.5 last year three-month period we have come down to 15.8% for this year’s three month period; however, I must say that it has impacted our inventories a bit and we are focused on how do we get back on the inventories to service our customers better.

Look at the capex and obviously what you see the lower number of the capex of 36 Crores this year in this quarter, but that is only a timing difference because we have in our investment plan very clearly and 36 Crores what you see is exactly in line with our investment plan so there is no change there. Moving on the free cash flow as you can see I already talked about this we have been able to generate a much higher level of free cash flow fundamentally because of our clear focus on reducing our overdues, which we have been successfully able to bring down further than the last quarter. So nutshell judicious capex spending is one of the key things that we have been carefully doing and the robust key in free cash flow generation and keeping our focus on the inventory levels and the receivables is going to be key focus areas going forward as well.

I move to the next slide which is talking about the performance indicator and this is giving you a snapshot comparison of the quarters and the 12-month period between 2020 and 2019 as well. So when you look at it you will find that our Q1 performance for 2021 has been significantly better than Q1 of 2020 and in some of the parameters definitely better than Q4 of 2020 in terms of revenue we were much better than the previous quarter by 3.4% as I have already mentioned and over the first quarter certainly we were able to do much better 42.8% year-on-year. The EBITDA I already said that the first quarter we were able to deliver 16.6% EBITDA margin although as you know in that last quarter of 2020 we had delivered 18.2% EBITDA margin and this impact is primarily coming from the fact that is the new commodity prices and some freight costs that we incurred during the quarter. So the EBIT margin to sum it up we ended the quarter at 13%, which was 1.2% lower than the previous quarter that was certainly better than the Q1 of 2020 by almost 2% and if you look at the profit after tax margin we have been able to close the quarter at 10.6%, which was 1.1% lower than Q4 of 2020, but certainly it is better at around 1.5% better than the Q1 of 2020 and as I talked about the capex already that we will continue with our investment plans going forward as scheduled and free cash flow definitely we have been able to generate stronger cash by going forward as well. So with this continued recovery from the market and actions and countermeasures that we continue to sustain the cost measures, control measures that we have put in place, which most of it we are still able to continue forward we are being able to put up this resilient performance.

I will move to the last slide, which is more a conclusion and outlook. So having done well in the last three quarters consecutively and more so in the first quarter of 2021 where we put up a stronger performance we are optimistic that we will continue to do this if the situation on the COVID changes faster definitely that is going to help growth story as well. We will also continue to work closely with our customers and like to further pursue and take the projects which are underway with our customers to closure and we are looking for more opportunities with the emergence of the hybrid technology and the electric vehicles we are also looking at those sectors, we are looking at bringing in a lot more digitalization content into our industrial space of the business and we will continue to generate strong order books going forward as well.

Coming to the plants with this kind of a loading that we have and a very clear export strategy we believe that our plants will sustain good performance levels going forward and we will be able to continue to hold the capacity utilization at the normal levels. Yes there are some dark clouds that are there on the horizon one being the COVID, second being the commodity prices, but as a Schaeffler team we are willing to take the challenge and move forward and we will try and address all these challenges, yes we are taking the market with cautious optimism. Thank you and I wish you all the very best, stay safe and stay healthy.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. First question is from the line of Rajesh Kothari from AlfAccurate. Please go ahead.

Rajesh Kothari: My first question is when you look at your product portfolio and we are significantly exposed to automotive sector how much of the portfolio you think is at the risk due to changing technology whether it is EV or might be some many more changes, but how do you see percentage of portfolio at risk?

Harsha Kadam: Thanks Rajesh for of course a very good question, pertinent question. When we look at the automotive technologies we at Schaeffler we are fortunate that we have a spread of products both bearings and nonbearings if I can say. We are present in the engine application; we are present in the transmission applications and also in the chassis application. Now as the vehicle technology moves from the internal combustion engine to the battery or electric vehicle technology surely there is definitely going to be a change in the portfolio. To quantify it at this point in time is not so easy because the products, the solutions are totally different and we definitely have mapped what are those products within the current portfolio, which would become obsolete and what are those new products that we would have to bring in to play the game in the electric vehicle segment so that is the first part. Second part is if one were to look at all the reports and the market in India the transition from the internal combustion engine to pure electric vehicle technology would certainly take much more years than compared to the other parts of the world. Now why am I saying that because if one were to look at the globe you will find these western countries are moving from internal combustion engines directly to battery operated electric vehicles whereas the countries on the eastern part of India mainly the Japanese and the Koreans they have been talking about hybrid vehicle technology, which is a combination of an internal combustion engine and electric vehicle technology. So put it whichever way all research data is showing that it is going to be another 10 to 15 years before the new begins to happen even by the year 2030 we believe that in India almost 85% to 90% of the vehicles will still continue with internal combustion engines, so what this means is that currently we do not see a risk on the portfolio that we have. Now to answer I will give a third point and Schaeffler globally has been very active in the electric vehicle technology space and also in the hybrid technology space. So we have been working with customers both in Japan, Korea as well as in the western countries with the major OEMs to develop technologies for whichever technology that these two parts of the world are going ahead with. So having said that Schaeffler already has the competence, the capability and the necessary technology and solutions already in its portfolio and we are continuously working to upgrade them as we move forward. So if and when and as and when India begins to catch it up we at Schaeffler team are well prepared and ready to just bring those technology, customize it to Indian needs and offer it to the customer whichever customer is willing to start to increase the volumes on the electric vehicle space, does that answer your question Mr. Rajesh?

Rajesh Kothari: Yes, partly. If I may just followup with one more question, out of your current 44% revenue which is into automotive technologies how much is PV, two-wheeler, trucks and tractors?

Harsha Kadam: Sorry, you quoted a percentage what was that if I may?

Rajesh Kothari: I am referring to your slide #10 whereby you have given the sales mix which is 44% is automotive technology, so I am just asking the breakup within automotive between PV, two-wheeler, CV and tractor?

Harsha Kadam: See predominantly our presence is very high on the passenger vehicles and the light commercial vehicles. On the commercial vehicles we do not have a strong presence, but we are now started to work with them to consolidate our presence there as well and our portfolio of the transmission application, which is mainly the new technology of clutches that we operate, which has been very well accepted by the commercial vehicle manufacturer is an area that we are targeting and the same applies even to the light commercial vehicles our clutches are in great demand and this is where we see we will be going to further consolidate our position.

Rajesh Kothari: Since you answered that you are working constantly to upgrade the product no doubt about it, yes it is going to take some long time before IC to EV becomes reality I am seeing that as on today's basis if you look at let us assume that current car changes to EV, how much of your revenue is right now say driven by that?

Harsha Kadam: Let me explain it in the way we measure it I talked about the content per vehicle correct. Now currently if you see our content per vehicle is around €40 per vehicle. Now if let us assume that the hybrid technology picks up and what we see is the addition that the hybrid part of the solution would add to our contents of vehicle would take it beyond the €50 per vehicle straightaway. So why because the internal combustion engine continues to remain as it is plus the add-on would be the hybrid technology which needs to be back onto the IC engine, so it is not going to go down it is going to only increase for me. Also what would happen is the internal combustion engine technology would begin to get optimized going forward once when it gets integrated with the hybrid technology. So having said that the demand for developing much better performance product for the IC engines would also go up which means we need to bring in more value products so I see a reason very clearly here that our content per vehicle even on the IC engines will begin to go up, so that is the first part. Move to a pure electric yes it is a game changer that is where because all the entire engine and the transmission system would get replaced by an electric motor and the electronics the motor control unit and the thermal management system now that is an area where Schaeffler has been actively working, we have made strategic acquisitions in the past few years globally and we are already well set and we have been working with a lot of OEMs in the west on the electric vehicle technology as well, so it is only a question of adapting the technology to India's needs.

Moderator: Mr. Kothari may we request that you return to the question queue for a followup question there are participants waiting for their turn.

Rajesh Kothari: Yes, thank you.

Moderator: Thank you. The next question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Firstly I would like to congratulate the Schaeffler team for good set of numbers and thank you so much again for the revised awesome disclosure standards that have improved quite drastically. So Sir my first question is on this automotive technologies growth that you reported, so 55% on a Y-o-Y basis if I were to observe the OEM production for this particular quarter and this includes everything includes commercial vehicles, LCVs, CVs, etc., that has grown by 25% so the 25% number versus this 55% if you could just explain what has led to such huge growth vis-à-vis the automotive production?

Harsha Kadam: Thank you Vimal for the question and thank you for that feedback about our being more discloses and increasing our disclosure thank you for that. Well I would like to answer a good question that you see a significant difference in the growth percentages I would like to answer it this way. As I mentioned right at the beginning we have been working with our customers and bringing new solutions for the gasoline change, as you know currently 60% to 63% of the vehicles that are produced in the country the passenger vehicles are gasoline and the rest 30 odd is only diesel and this was not the case two years back, two years back the case was vice versa and our diesel engine content was very high, what we have done now is actively engaged ourselves with our customers to bring in more products for the gasoline engines complying to the BSVI norms that is the first thing we did. The second was also the products on the transmission side and that was mainly to do with the clutch applications so we bought in a host of products, a new design of clutches which we were able to quickly validate through the entire period of last year and take it to a closure with our customers, which has resulted in a much significant growth than the market as you can see. So mainly I would say very, very good speed in product development and of course closely working with our customers these two have been predominantly the key points.

Vimal Gohil: Sir so basically the more point here is that your gasoline products have been well accepted and this kind of an outperformance could probably continue going forward on the current base that we have to work vis-à-vis the industry?

Harsha Kadam: Surely I guess so that is how it should be because that is what the market is moving towards.

Vimal Gohil: Sir, last question, if you can just comment on your total capex for this year and how much of that would be on localization in the industrial products and the rationale for investing in engine oil at this point in time so how do we see this long-term prospects of engine oil going forward because as and when the engines get better the requirement of oil probably comes down you can correct my understanding if I am wrong, but if you can just explain the rationale for investing in these engine oil products? Thank you.

Harsha Kadam: Sure, I will take the engine oil part of the question and the capex would be taken by Satish. See why did we get into engine oils, surely you know very well that if our bearings have to perform better the lubricant plays a very critical role in any component that we supply in the engine and Schaeffler supplies a lot of products into the engine application so use of a high quality high performing lubricant with long life is a very, very basic requirement in this application. So we decided to get into this space as well, but mainly on our aftermarket business why aftermarket because we believe that although the technology might shift from IC to electric vehicles. The IC engine vehicles definitely do have a lifetime of 15 years on the road and they would still continue to need the lubricants, so I strongly believe that lubricant demand would still continue for another decade or more even after the complete transition happens, so we clearly see that the demand will be there easily sustainable for another two decades at least and we would like to try and leverage the competency and the strength we have and thirdly is we operate on a lean investment model on the lubricant oil as a product meaning we do not want to manufacture the oil and we work with our partners, strategic partners to develop the oil, we have the knowledge about what the oil would need; however, we work with the partners and we try to bring in so that our product performs even better with the good lubricant oil that we offer. Satish capex to you!

Satish Patel: Thank you Harsha. So as regards the question on the capex as you know we have spent close to 36, 37 Crores in Q1 of 2021 and our capex outlook for this year is close to 275 Crores, so about 275 Crores that we would be spending on capex this year large amount of this would go for capacity expansion we are expanding the capacities at the Savli plant and also capacity additions at all the other three plants mainly at Savli plant so this would largely go towards the capacity expansion. Yes there is an element of localization as well, how much of this is for localization I do not have the ready figures, an answer to that, but when we say we have capacity expansion there is also an element of localization in that. So certainly exclusive localization as well as localization in combination of capacity both together would also contribute to localization and part of this capex that we have earmarked would go for localization and as you know over the years we have significantly enhanced the localization, as far as our finished goods are concerned the localization has gone up from a level of below 70% about 3, 4 years back to 75% and the capex that we have spent in the last three to four years has gone to a certain extent for the localization. We will continue to focus on the capex as well as localization within the capex and we are expecting as we also inform you in the other previous calls the capex outgo up next three years when we actually mentioned when we had the calls during 2020 that capex outgo during the next three years would be close to 1000 Crores. We have now even enhanced that 2021 basis capex for the next three years because 2021 has a higher capex, we are expecting to spend close to 1200 Crores in the next three years basis 2021 certainly continued focus on localization as well.

Vimal Gohil: Thank you. Sir just one question that comes to my mind is on this CAFÉ norms if you just comment on that how things change for us because CAFÉ norms is something which is going to come quite soon, if you can just comment on that, that is all from my side? Thank you.

Harsha Kadam: Well to take that question on CAFÉ norms yes there are talks that the CAFE norms would be kick started from 2022 or 2023 and as I said earlier while we have learned a lot from the transition and developing the products during the transition from the export in BSVI we are also equally focused on what we want to do when the CAFÉ norms get applicable in India as well and surely we have a clear strategy there as well, how do we meet those challenges going forward and we have got our act together there to work on certain projects to deliver the appropriate products in the appropriate applications so that we comply with the CAFÉ norms that are coming up as well.

Vimal Gohil: Fair enough Sir. Thank you and all the best.

Moderator: Thank you. The next question is from the line of Lokesh Manik from Vallum capital. Please go ahead.

Lokesh Manik: Sir just a couple of questions, one is on the margins as we understand as per your comments last quarter that we would expect pressure on margin because of increasing commodity prices, now if we see the spike in commodity prices on a yearly level has been quite high, but the impact on margins has been quite controlled, so if you can throw some light on the factors that we have on the factors leading us to controlling the impact of commodity prices both in terms of nature of contracts with suppliers and with our customers and the second question was on the other expenses, which on an annual level if you see it is about 15% of sales and for the last few quarters we have been recording that at 20% of sales so there is an improvement of 300 bps now just a clarification from your end whether this improvement is sustainable or this is temporary due to the COVID nature and this may come back once things normalized just these two questions from my end sir? Thank you so much.

Satish Patel: Thank you Lokesh, very good questions. The first question that you raised is very valid that our margins have not been so negatively impacted despite the commodity prices rise pressure during Q1 2021 and let me just give you a little background. If you look back one year starting from Q1 2021, Q4 2020, Q3 2020 and excluding Q2 2020, which was a quarter impacted by lockdown Q1 2020 is thereby if you constitute one year throughout this period on an average we have won close to 13% of EBIT and also close to 16% to 17% of the gross margin, which is EBIT we have been consistent in terms of earnings because of few reasons. We have been focusing on the quality of cell, focusing continuously on the portfolio optimization. Harsha has mentioned quite many times about our balance business portfolio this has actually helped us, there have been certain volatility on the automotive, there is certain sort of sectors where we perform so well in industrial business and other way around there are setbacks in industrial business automotive actually copes up that gap. So we have this balance business portfolio, also we continue to focus on the portfolio optimization and factor strategy within the automotive and industrial business has helped in sustaining the margins over the last quite many quarters, there have been ups and downs between the quarters but that is short term and that is short lived, on an average our margins have remained better. Now coming to your specific question about the commodity price impact in this quarter despite that not so, so much decline in the margin that is precisely because of the counter measures and the continued portfolio optimization focus, which was also part of our counter measures that we instituted already last year. Yes, there are quite many measures on the cost side and the cost level that we have actually attained, which is the lower level last year that we have still been able to retain and that has helped as we also highlighted in the presentation that the continued counter measure has helped offsetting some of the pressure of the commodity price, but this is for the first quarter if commodity prices goes up like this and continues like this we have to go for other measures in order to sort of recover this and by offset and thereby sustain the margin so cost alone would not sort of take care of such a magnificent and significant increase in the commodity prices, which is entirely because of the uncontrollable and external factors. Also coming to your question about the other expenses improved by about

300 basis points that is very right most of the other expenses what we monitor and call as overheads we have a very comprehensive project and programs including the programs in the operational areas and fit for quality and first-time quality, too quite many programs in the non-operational area whereby we have been able to contain the overheads. Yes, last year because of pandemic some of the expenses and I give you one simple example of travel expense, which had almost not incurred so certain percentage of expense was not incurred, similarly there are certain expenses which are pandemic driven those would not be at such a low level in the future when absolute normalcy resumes; however, all other overheads where we have specific programs and where we have specific focus to contain them would continue to be focused and we would try this to see that we have the sustainability of those benefits on a quite long-term basis, we are continuously also focusing on the variability, I had also explained in the past that we are switching more and more in terms of variability conflicts to semi variable to variable nature of expenses, logistics example is very good where in the past we had huge ratio of fixed expense, which has been moved to variable and semi variable because of switch from our own centers of logistics warehouses to third-party managed consolidated warehouses. So these are the few big examples, yes there is continuous focus on that and then that to a certain extent will remain and therefore other expenses situation we are expecting also to remain better than this, but yes it may not remain as low as now because some of the expenses which are pandemic driven could not be incurred would be required to be incurred when the normal business resumes.

Lokesh Manik: Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Nimish Shah from Emkay Investment Managers. Please go ahead.

Nimish Shah: Congratulations on a good set of numbers. Also thank you for the additional disclosure in the earnings release. So just one clarification on this earnings release, the industrial segment that you classify under mobility and component just wanted to understand will this include two wheelers and tractors and the other segment that the industrials that were classified under the other segment will that include railways and wind energy, just some clarification on that?

Harsha Kadam: Absolutely your understanding is very right Mr. Shah. Two-wheelers and off-road tractor business is part of mobility within industrial and other industrial includes mainly in the business the power transmission business, industrial automation and raw materials.

Nimish Shah: Yes, that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Congratulations on good numbers. Firstly on the margins while you had explained quite a bit you did not really comment on any price hikes that you might have taken because the last quarter you had mentioned that you are in the negotiations to pass on some of these hikes, so I just wanted to check where are we at the price hikes anything that we are looking to do in this quarter going forward or anything that we have taken?

Satish Patel: Yes, as I mentioned there is such a steep rise in commodity prices particularly steel price, which is mounting month-after-month has to be compensated from the markets in one form or the other we have began that so far not so much is there in Q1, but yes there would be a recovery happening in the future quarters but we have just begun that process.

Harsha Kadam: If I may add Mukesh just to what Satish said if I may add, on the aftermarket side of the business definitely we did raise the prices in the last quarter itself so we were as the steel prices commodity prices began to go up we went for some price increases on the aftermarket already, so just to inform you.

Mukesh Saraf: Thank you and my second question is on the content per vehicle, you have done a great job now to move to close to €40. I remember in one of the previous calls you have mentioned that in INR terms we want to get to close to Rs.4700 so that is like close to maybe €50, so not looking at the hybrids or any of those content right now just looking at IC, EV and say probably the next couple of years how do you see this content move, this year, next year how do you see it?

Harsha Kadam: Thanks for the question Mukesh and first thing within the automotive space you have various segments, you have the passenger vehicles, you have the light commercial vehicles, you have the medium and the heavy commercial vehicles and of course the tractors also are there. Now our content per vehicle definitely varies from segment-to-segment as well so there are segments where we are pretty strong where we are already sitting at €45 plus levels and there are segments where we still have some work to do, but certainly we are focused on sectors where we believe there is an opportunity to do further develop more products and also commercial vehicles definitely is one of our key focus areas where we should be able to grow our content per vehicle going forward, so I do not see any reason why we cannot further build on the levels what we have reached now and we are optimistic with the projects that we are running and more of the opportunities that we will look for we should be able to deliver much higher content per vehicle as an average across the segments.

Mukesh Saraf: Right any number you would want to say in next couple of years, could you hit like 40 or like 50 or something like that?

Harsha Kadam: I would say it would be a little premature to put a number to it, but rest assured like last year we were in the mid 30s €30, €35 and we did say that we would like to, our ambition was to cross the €40 and we have done that this year, so we will take one step at a time as we move forward.

Mukesh Saraf: My last question is on exports. We are seeing some pickup there in fact sequentially we have seen improvement in exports anything that you would like to add there, any new programs or any new areas that we are looking at exports, apart from the APAC that you had already mentioned anything else that we can look forward to there?

Satish Patel: I think as we got exports also if you would have been part of the yesterday's AGM Harsha had narrated some of the sort of focus areas, just to extend that we have sort of opportunities of exports from APAC and the entire Asia Pacific region and what we have in terms of growth in exports in last couple of years large portion of this is contributed by this region, we are focusing more and more opportunities there. On the product side we have definitely very strong sort of a strength, we have the products to offer for exports, which are in addition to the ball bearing products, we also have opportunities for one way clutch which is for two-wheelers, we have LSB opportunities which are the large size bearings, we have opportunities in TRBs and there are certain projects that we are actually working on for these products for the opportunities worldwide, so currently the progress in terms of exports and the growth is quite encouraging we grew over 15% in exports and this year the growth is expected even further and based on the program that I talked about for this specific product we have certain opportunities and specific plans there and that is going to boost the performance in exports also further in the next two to three years of time. We do have long-term strategy as well as part of our overall strategy of the balanced business portfolio in addition to that focusing on domestic and exports and thereby exports is the specific focus area there is also great sort of support from the global secular organization to actually focus India as I would say not necessarily low cost but the right cost country and the strength that we have we would be able to leverage by the right cost as well. So there are opportunities and there are some plans and we are expecting a good growth there in exports.

Mukesh Saraf: Sure. Thank you Sir for the elaborate answer. Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now have a conference over to Mr. Vijay Chaudhury for his closing comments.

Vijay Chaudhury: Ladies and gentlemen thank you so much for your participation. I see that there are other people on the queue as well for the questions, but unfortunately we have to close the call due to other commitments from the management, but however you may please send me the questions on e-mail and we will answer all your questions within the next 72 hours. If you have any further queries, please do reach out to me on vijay.chaudhury@schaeffler.com. Thank you and have a good day.

Moderator: Thank you. Ladies and gentlemen on behalf of Schaeffler India Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.