"Schaeffler India Limited Q4 FY19 Results Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Schaeffler India Limited Results Conference Call for Q4 and Full Year Results for the period ended December 31, 2019. 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, Mr. Chaudhury.

Vijay Chaudhury: Thank you, Margret. Ladies and gentlemen, welcome to the Results Call for Schaeffler India. Today we have with us Mr. Harsha Kadam – CEO and Managing Director, Schaeffler India; and Mr. Satish Patel – Director Finance & CFO, Schaeffler India. I now hand over the call to Mr. Kadam who will take you through short presentation on our results and merger update. Over to you, Mr. Kadam

Harsha Kadam: Good morning, ladies and gentlemen in the call. This is Harsha Kadam from Schaeffler India Limited. I have with me, Mr. Satish Patel, the Director and CFO as well. I will take you through some slides, I hope you have seen the presentation that we have prepared for you.

And I would like to move to the Slide #2, wherein we would cover three broad areas, the first one being the market development, and what does it mean for the Schaeffler business. The second area I would like to touch upon is on quarter four performance along with the 12 month period, last year's performance. And then we talk a little about milestone which we as a company in India have reached in the area of corporate governance.

I would like to move to the next slide, which talks about the business highlights and the lowlights. And what you see here on this slide is, the quarter four brought us some surprises, pleasant surprises though. For one, the automotive demand saw a spurt. And although it looked like a temporary surge, but it was a positive development in our business. And for the first time in four quarters, we saw the automotive demand go up. And we were able to do better than the previous quarter in the area of automotive business.

Also, our concerted efforts during the entire year to manage our costs in lieu of the weak demand from the market, our focus on reducing inventory and also flexing our cost in the plants in line with the demand. In addition to that, keeping a very strong focus on ensuring significant free cash flow into the organization helped us in managing our working capital in a very, very good manner.

Lastly, the operating profit definitely was better due to all these concerted efforts in managing our costs and also managing the sales mix intelligently. While these were strong highlights, we did still face headwinds. And for one, the industrial sector slowdown which always lags behind the automotive sector, quarter four we posted lower numbers than the previous quarter. And in spite of the slowdown in the automotive market, which tended to show some spurts of recovery in Q4, the industrial sector did not show it. Also added to that was the reduction in our export orders in the last quarter. We saw dips and order cancellations coming from Europe and the Southeast Asian market.

I move on to the next slide, which talks a little about the economic picture in the country today, and this a snapshot of the key indices. Look at the GDP, and clearly there is a message in the market that the GDP would stay at around 5%. And it was confirmed by RBI as well. The index of industrial production has a seesaw effect, as you can see in the graph here. And November and December were the months which showed a little bit of a recovering, but January, again, as the numbers are coming out, the last few days, they don't see much improvement either. What's concerning is the inflation in the country, and it has been consistently at a high level, even January as the numbers are confirmed now, the January numbers are standing at 7.6%. And the core industries, again, have the same seesaw effect. And still we see a muted demand in the core industry sector.

There is much to be done, the recent Budget, although it's focused on the long-term growth of the economy, short-term, particularly to the automotive industry, it did not bring any significant gains so to say. While the focus was much on growing the rural market, and improve the ease of doing business, and focus was purely on infrastructural growth in the country. Well, this is a long-term picture. And I guess now the challenges for companies like us to see how do we get our act together and be prepared for a long-term slowdown. Some policies which we expected would go through are still pending decisions, like one of them being the vehicle scrappage policy, which definitely would create some stimulus for growth in the automotive industry.

I move to the next slide, which talks about some of the sectors and how they performed over the previous year. As you can see on the slide, I am on Slide #5. You see that all the sectors related to the automotive are down in double-digits over the previous year. The passenger car vehicle was down 11% at 3.6 million vehicles that were produced in the country as it is 4.1 million the previous year. And two-wheeler production was down as well, at 9%. Tractor was down big time 17% with commercial vehicles close to 20%.

The primary reasons that we are attributing to this is the liquidity crunch in the market, hike in insurance cost, primarily in the two wheeler sector and the passenger vehicle sector. And also weak consumer sentiment, which is the cause of the main slowdowns that we have seen. Of course, the announcement of the decision by the Government on the electric vehicles still to see the light of the day. And the surprising thing in the Budget, with the increase in customs duty for imported parts of electric vehicle is clearly a message that the focus will be on Make in India rather than imports of electric vehicles. All in all, we saw a degrowth of 12% in automotive industry over the previous year.

I move on to the next slide, Slide #6. And what you see here is the headwinds we faced even in the industrial space. Some of the sectors did show a positive growth, steel grew at 6% and the mining industry, although it took off very well in the second half of the year, the first half was muted, and as a result, you see flat growth over the previous year. Power generation was the same, riding on the back of industrial production. So we see a very flat power generation that has happened in the country.

Interestingly, some of the sectors which have showed a strong growth were in the wind energy and the railways rolling stock. The reasons, again, here for the muted responses and growth was attributed to the same liquidity crunch at OEMs and also the rural market which could not manage the liquidity issue. One of the sectors which I must point out to which has been hard hit is the machine tool industry, where we saw a decline of almost 35% over the previous year in terms of demand.

Having said that, I would now like to talk a little bit about how Schaeffler business is structured. I move to Slide #7. What you see on the slide is the structure of the business portfolio what Schaeffler has in India. And we have a pretty well balanced portfolio between the automotive and the industrial businesses. This has its advantages, which I will point out a little later. Now what does this mean? I move to the next graph on the right hand side, it gives us a mixed result. As you can see, the auto industry, we have been facing strong headwinds in terms of low demand and that has resulted in a lower performance in our automotive business. While the industrial business, towards the last quarter, the last quarter performance was not very good. Yet, we were able to stay above the 2018 performance levels in terms of our industrial business. Now, this structure is important and we believe that maintaining this balanced portfolio will help us in terms of the volatility in the market.

I move to Slide #8, which talks about the performance update. I then move to Slide #9, which gives you the picture quarter-by-quarter. As you can see here, the graph showing the quarter four sales revenue from operations was at the same level as the previous quarter, Q3 of this year of 2019. And then annual level, we were down 4.4% over the previous year. If you were to look at the same quarter the previous year, we are down 12.6%. So quarter four we posted Rs. 1,036 crores which was at the same level of Q3, and at annualized level we have posted Rs. 4,360 crores as against Rs. 4,561 crores of last year.

So the other way, we would like to talk about the picture on the right side of your slides, which is the sales mix. And we have grouped all the mobility sectors into one region, one sector. And what you see here is 80% of our business is mobility, which is attributed to the automotive passenger vehicles, the commercial vehicles, the off roads, the railways, two wheelers, and the rest of the business is forming 20% of it. And as you can see, between these two sectors, the other sectors have grown by 9% over the previous year, while the mobility sector was down 7%, clearly in line with our growth rates, degrowth has been lower, much, much better as you can see from the market, which was down 12%.

Move to Slide #10, and this is talking about the profit before taxes. And as you can see here, we have posted in Q4 Rs. 124 crores as the PBT, which was 12% better than the previous quarter which was at Rs. 115 crores. For the year, we have posted Rs. 535 crores as against Rs. 675 crores the previous year. And thereby, the margin which was at 14.8% in 2018, we are posted at 12.3% in this year. Fundamentally, the results could have been far worse than this had we not instituted a lot of corrective actions and course corrections along the way, in terms of flexing the cost in line with the demand, as well as managing our inventory, as well as managing our overhead costs. And thereby we were able to improve the margins much better.

I move to Slide #11, which gives you the highlights of the overall performance for the quarter and for the year. As you can see from this slide, for the quarter, the revenue growth year-on-year was down 12.6% for the quarter. However, for the full year, we were down minus 4.4%. And we ended the quarter with an EBITDA margin of 14.9% and the full year at 14.8%. The EBIT margin, as you can see, we have closed the quarter a 10.81%, the full year has been better 11.2%. And the profit after tax margin, as you can see, is 8.2% versus 8.4% for the year. This year the overall performance highlight for the quarter and for the year and how are we done over the previous year.

I move to the last subject, and we talk about governance. And we have achieved an important milestone. Schaeffler believes that more than what we do or what we achieve, how we do the business is more important to us. And corporate governance is a very, very subject very dear to all our heart. And I would like Satish to comment a little bit on it.

Satish Patel: Thank you, Harsha. So, as Harsha mentioned, corporate governance is high focus area for us. It's very important that how we conduct our business. We have moved a ladder ahead year-on-year in terms of our governance practices. Couple of years back when we started evaluating ourselves, we were actually rated 'good' in terms of our governance practices. I am happy to say that this year, with carter knee-jerk on better governance practices, we have moved a layer ahead compared to the last year, and we have achieved the leadership position in governance. Very few companies, three companies in Sensex and six companies of BSE100 fall in the category of leadership position. I would say that in the context of our position now, on the top in the layer of governance we are able to serve our shareholders and conduct our business in a much, much proactive and better way than ever before. We will continue our focus and continue efforts. We would not be complacent and we would ensure that our governance practices are in high focus going forward as well.

Harsha Kadam: Thank you, Satish. So to summarize. Yes, it was a challenging year, 2019. However, with all the headwinds that we faced in the market, the volatility we faced, the uncertainty that we faced, we got our act together, and the entire team here. And we bought in a lot of measures on top measures in terms of identifying new business opportunities to make up for the lost ones, and also important actions in managing and flexing our costs, cutting waste across our value, value chain, have all enabled us to definitely post a reasonably good profitability picture in spite of the strong headwinds that we saw and faced. With this I conclude my talk.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Hitesh Goel from Kotak Securities. Please go ahead

Hitesh Goel: Can you give us some sense on how the automotive vertical has done? Wind energy, railways, so, basically some sense on the growth rates or what has happened in this quarter and also full year in automotive, railways, wind, industrial, aftermarket automotive, which you used to give. And also a LuK and INA how has been performance, we can separately discuss that as well.

Harsha Kadam: Okay, thank you for the question. I would like to first talk about on the automotive. As you know, our previous slides talked about the degrowth in automotive and we see that the growth is down by 12%. And our performance, Schaeffler India performance in the automotive space has also been to the extent of around 11.8% down. And fundamentally, almost all the subsectors what we have were down because all the key players registered a lower production numbers. However, in the last quarter of the year, we saw sudden spurt in demand in Q4, and our business verticals in automotive of engine systems, belts and chains, phasing systems have done pretty well. And they have registered a double-digit growth in that quarter over the previous quarter. Well, these demands primarily came on the back of demands coming on the BS-IV vehicles, which means the market still is asking for some BS-IV vehicles before the BS-VI norms kick in from 1st of April. That's on the automotive side of the business.

And on the industrial side, yes, wind is registering a very strong growth for us, primarily because all the wind manufacturers have decided to make India an export base. So a lot of production that is happening in the wind sector in this country is for the export market. And we are happy to play a part in this, and we do have strong presence in the wind sector. Railways, again, a strong growth sector, fundamentally, because of the push and drive and the investments coming from the government, and also with the opening of the metro rails and infrastructure projects within all the cities. And not to mention that a lot of players on the metro rail are using India as a base. And railway too we have registered a strong growth over the previous year. Nutshell, this is the industrial.

So, we did have some mix on some sectors which did pretty badly, fundamentally on the machine tool industry. As I mentioned earlier, which is riding on the back of the automotive industry. So since the automotive industry degrew, the mission driven industry degrew further, and at a worst rate of almost 13%.

Hitesh Goel: Sir, just a clarification, when you said automotive growth in this quarter, you are talk about Q-on-Q not Y-on-Y, right? Because this quarter there is a 13% decline in revenues.

Harsha Kadam: That's right.

Satish Patel: That's right.

Hitesh Goel: And Sir, can you give us some sense on export business also, export and aftermarket?

Harsha Kadam: Well, on the export business, we did see a decline in our exports in the last quarter. And we ended the year with a flat number, we did the same numbers as last year. But for the quarter, we saw a decline because of the weakening sentiments in the European market and the Southeast Asian market. There were a few order cancellations which resulted and order deferments that have happened. So we posted lower numbers on the export side over the previous quarter.

Hitesh Goel: And any sense on aftermarket please?

Harsha Kadam: Aftermarket, the automotive aftermarket, we posted the strong growth in the last quarter of the year. We almost grew 20% plus in that quarter over the previous quarter. It has registered a strong growth in the aftermarket for us. At an annual level of growth was remaining the same. However, this is a very positive indicator for us that the demand for automotive aftermarket spares is certainly likely to grow up in a muted OE demand situation.

Hitesh Goel: And sir, my final question. Can you please talk about the tax rate? You have now moved to the new tax rate. How should we look at the new tax rate?

Satish Patel: So the tax rate cut which was announced last September 2019, from basic corporate tax from 30% to 22%, we have adopted for that tax reduction. We have given up the benefits otherwise in the form of incentives that we were availing. In our case, since the incentive benefit was insignificant and the tax reduction was quite significant, we have gone for that. And that has definitely also contributed to better generation of the profit after tax in this year. This year, the contribution from this tax reduction is to the tune of Rs. 30 crores.

Hitesh Goel: No, because I am seeing your full year tax rate is 31.2% still in CY19?

Harsha Kadam: Right. That used to be over 34% tax rate.

Hitesh Goel: But the tax rate has come down to 25.2%, right?

Satish Patel: The effective tax rate would still be over 27%. This year, it is 31% because the effect of the tax reduction was from 1st April 2019, so it has nine months impact as far as the 2020. And future years concerned, it could come down from 31% to close to 27% because of surcharges and cess, and certain dis allowances and allowances on account of depreciation, etc., effective tax rate would still be about 27%, 28%.

Moderator: Thank you. The next question is from the line of Sandip Tulsiyan from JM Financials. Please go ahead.

Sandip Tulsiyan: Firstly, on this transition happening from BS-IV to BS-VI, I guess most of the OEs are now moving into production. And in the previous calls, you had mentioned that there would be more clarity emerging closer to the date. How exactly the portfolio is changing and what kind of impact it is having on Schaeffler's content per vehicle. If you could give us an update on the same please.

Harsha Kadam: As I mentioned in my last investor called three months back, there is a shift ongoing from diesel to petrol, most of the players decided to increase the petrol or the gasoline vehicle content in their portfolio. And as a result, we did not have the right product mix to bring to the gasoline space. But we got our act together and we began to address this and we have already seen successes in the gasoline space. Incidentally, the spurt in demand I talked about, the interim demand which went up in Q4 of 2019, more came from diesel vehicles again. In fact, there is now a thought and I see activity that the OEM players want to also make the diesel vehicles BS-VI compliant and there's enough drive in that direction as well, as a few of the players have already launched diesel vehicles with BS-VI compliance.

So having said that, the direction which we have chosen and the actions we have put in place is clearly in the right direction, to increase our content per week. And diesel in any case, we do have the product portfolio with us. Gasoline, we have to customize and now we have started the supplies. So very soon surely we will see an increase in our content per vehicle going up.

Sandip Tulsiyan: Alright. Second question was pertaining to the margins in the non-mobility, the others segment. We have seen a sudden spurt in margins over there, if you could highlight was there any one-offs or any one time high margin supplies that were there in this particular quarter?

Harsha Kadam: Yes, the spurt in margins you see in the other sectors is primarily attributed to coming from the wind sector, as the demand for wind has gone up tremendously. And just to share with you, our business in the wind over the last year has grown almost 20%, which is clearly telling that although the wind as a sector, the domestic consumption is almost not there, it's all being utilized for the export business. And we have strong presence with all the big major wind manufacturers, wind equipment manufacturers, and we have benefited from this strong presence in the wind sector. And that is why you would see a strong increase in our spurt in the margin levels.

Sandip Tulsiyan: And lastly, just a clarification, again, on the sales mix that we used to share earlier between auto, industrial and exports, if you could share that for the fourth quarter, as well as CY19 as a percentage of total sales, that would be helpful.

Harsha Kadam: Well, as I showed in the chat already before, between the auto and the industrial, the automotive is about 53% and the industrial is about 47%.

Satish Patel: And we have 10% of total revenue as exports. So if you exclude exports within the other 90%, if you split automotive and industrial, automotive is 53% and industrial and is about 47%.

Sandip Tulsiyan: Of the 90%?

Harsha Kadam: Yes.

Moderator: Thank you. The next question is from the line of Shyamsundar Shriram from Sundaram Mutual Fund. Please go ahead.

Shyamsundar Shriram: Sir, you did mention that we are pretty much geared, post the BS-VI transition, to gain share in gasoline. But with the largest market leader announcing the stoppage of diesel, in the interim period, maybe for a quarter or two until they come back with diesel, can you give some color on how much could be the content impact in the interim period until the diesel portfolio for the largest automotive OEM comes back?

Harsha Kadam: Okay. The fact remains that there is a shift from diesel to gasoline. However, we do now see some change in policy positions. And as I mentioned in my earlier question that I answered, that we see a spurt in demand for diesel again. If you look at the market, the spate of launches that have happened, and particularly in the SUV segment, they are all diesel vehicles. Clearly indicating that the diesel engines are being made compliant to BS-VI norms as well. So, even the largest players in the country have indicated clearly that while yes long-term they want to move from diesel to gasoline, diesel would continuously be focused to be upgraded to the BS-VI norms. So there is no doubt about that. Or content which used to be close to 70% in diesel and 30% in the gasoline, we have quickly acted upon it and we have started to reverse the trend, and I am sure we are going across the inflection point very soon.

Now if there is going to be demands on the diesel vehicles coming up, we are ready to gear up, because we already have the products and solutions. And gasoline, all the projects with our customers are almost homologated and validated. And we have already started supplies to some of the customers where we have gone through the validation process. So we are now strong enough to play in both these spaces, be it gasoline or be it diesel.

Shyamsundar Shriram: Right. So even in the interim, our content per vehicle doesn't change between what it was before BS-IV and BS-VI, even after the transition. Even though diesel may come down because of Maruti stopping diesel, we will not see any impact in content per vehicle?

Harsha Kadam: You are right. The main reason for this being that the gasoline products have a better value in them. And the price levels are also much better in the BS-VI version of the products that we are bringing in. And hence, I have always said this in the past that the content per vehicle is only going to go up, not go down.

Shyamsundar Shriram: Sir, any new products that we are adding on the gasoline side, if you can just give some highlights on that.

Harsha Kadam: Well, I am not at liberty to share the details as of now at this point in time.

Shyamsundar Shriram: No problem, sir. Sir, on the industrial aftermarket side, industrial aftermarket is, I think, roughly around 15%, 16% of our consolidated sales, if I am not wrong. How has been the performance in Q4, and for the full year FY19?

Harsha Kadam: Okay. You are right, our industrial aftermarket is around 15% of the total sales, what we do. And we have a very strong focus on the industrial aftermarket. We have consistently made sure that we grow this and the average growth what we have seen in the industrial aftermarket is about 12%, 12.5% over the previous year. And clearly, there is a focus to develop the market further. We strongly believe that having the industrial market at a percentage of about 40% towards the total industrial sales would be a very healthy number to be with. And we have plans to launch new products in the space going forward as well, as we come into 2020.

Moderator: Thank you. The next question is from the line of Priya Ranjan from Antique Sstockbroking. Please go ahead.

Priya Ranjan: One question is on the merger synergies, we have been talking about merger synergies where we are in terms of all the benefits of 1% or 2% in terms of overall cost savings, as well as some we are now seeing some supply chain, I mean, consolidation etc. So where are we in that phase?

Satish Patel: Okay. So as far as the merger synergies are concerned, on the cost side and overhead savings because of the merger, we are on track. The cost reductions that we had identified in the overhead area, we have realized them. Whatever was planned for 2019 we have fully realized. On the distribution network also we have synergy benefits fully realized. We have implemented now consolidated warehouses, where we house products of all the plants and erstwhile companies together. There is a gain on account of the consolidation of the warehouses as well as full truckload container systems and the overall efficiencies in the transportation. So, like the overhead side and the cost side we have realized the synergies defined. On the sell side, distribution business, I would say, we have more unless close to realization. However, in OE business there is still certain sort of projects to be accelerated.

Priya Ranjan: So, broadly, we are on track and we are almost kind of done in one whatever we have promised?

Satish Patel: Yes. On merger synergies, yes.

Priya Ranjan: And the second part is on the industrial business. So how do you see, I mean, CY19 was a very good year for you in terms of railways. So what was your full year railway growth rate? And what share of industrial revenue is now coming from railway, including Metro I am talking about, because Metro is now an important component.

Harsha Kadam: Yes. Railways, as I mentioned earlier, we posted very strong growth. We did almost 25% better than the previous year, which is quite good. And we see a lot of action on this in this space. As you might have read, railways have started to privatize as well. So this is opening up opportunities for major global players with whom we have a strong business presence to get and offer their values and services in the railways as well, the privatized railway. Talk about metros, India has become a hub with all the major players coming into India. And India started to export metro coaches and locos to all over the world, be in Brazil, be it Australia, be it Europe, even to Canada. So, having said that, we have a strong presence with the key players and we definitely are benefiting from the growth. And that's why you see a strong growth of almost 25%.

Priya Ranjan: And total sale, how much this has reached in total sales, whatever way you want?

Harsha Kadam: Sorry, are you asking about the railways?

Priya Ranjan: Total.

Harsha Kadam: Okay. It's about 5%.

Priya Ranjan: Okay. And the government is not talking about fully moving to electric locos. So, do you see some kind of content risk there going forward?

Harsha Kadam: Actually, this shift is enabling us to bring in a much higher value offering to the sector. The last year in the month of November, we participated in the **0:36:19.3**, wherein we officially have launched product which is ideally suited for the electric locomotives. And we are the only manufacturer in this country who have the capabilities today to give this offering to the customers who are also switching over to e-loco. We are clearly focused on addressing the two parameters which the railway has set as the criteria going forward. That of reliability and safety. So we are seeing a lot of opportunities and we do have more projects in the pipeline to continue to be a strong player in the railways.

Priya Ranjan: And one last question is on the automotive side. So, if I have to look at say from gasoline or diesel to mild-hybrid or strong-hybrid. So, what kind of content changes you see in terms for you when these parameters will change as we move towards partial mild-hybrid to strong-hybrid?

Harsha Kadam: The word in itself, mild-hybrid, means that the internal combustion engines, be it diesel or gasoline would continue to be the base or the primary power generating unit onboard. So the hybrid which is an electric drive system would be an add-on. So, from a content perspective of our offering, there is not going to be any reduction as long as the entire internal combustion system is going to be there. However, the opportunity for us is to bring in hybrid solutions and components for the hybrid application or the mild-hybrid applications. Which, obviously, would be over and above the content we already enjoy in the vehicle. So, to me that is a big opportunity. Yes, currently the mild-hybrid volumes are not very strong. And so whatever solutions we would offer would be important. But going forward, we do not rule out the possibility, once the volumes go up to do manufacture them in India.

Priya Ranjan: And lastly just on financials. It is a very strong cost control you have done in the last couple of quarters. So do you see this cost control whatever you have done when the volume will come back, some of these costs will remain as it is and we will enjoy as much better margin if the volume were to recover?

Harsha Kadam: Well, like the story goes that during the tough times only the tough get going. And the times were tough last year and we did a lot of good work in managing our costs pretty well. And we intend to continue to manage more lean and be more efficient as well. However, that does not mean that we will cut down our investment wherever the market need arises. Just to share with you, we have invested our full capacity last year, close to Rs. 350 crores, we continue to invest again this year as well. So our investment plans in terms of plant and machinery is still underway. Where we would try and manage our costs more efficiently is on, as Satish mentioned, on our freight cost management, on our energy consumptions, on overhead, on travels, and some of the temporary labels and workforce that we employ. So we will try and sustain this as long as the market demand doesn't come back. Sure.

Moderator: Thank you. The next question is from the line of Nishith Jalan from Axis Capital. Please go ahead.

Nishith Jalan: Sir, I have a couple of question. So, basically my first questions was on gross margin, we have seen a decline. So just wanted to understand what are the reasons for that? Because commodity prices have kind of come down. And you also highlighted that aftermarket is seeing some strong growth, which I would assume would be a higher margin business.

And a related question would be, where are we in our localization drive? Because we had aggressive plans to do localization and you just highlighted that your CAPEX plan remain intact. So just wanted to understand how much of this is for localization and where are we? So as to understand how the profitability should move ahead in the coming years.

Satish Patel: Yes. So as far as the operating margins falling, if you see full year basis, this year vis-a-vis last year, quarter-on-quarter some of the quarter have actually reflected that sort of situation, except quarter four and to a certain extent quarter three. The reason for that is entirely attributable to our sales loss owing to be market downfall. So the sales loss of closed to 4.5%, which has a mix of automotive, exports and industrial business, automotive loss is significantly higher and within automotive also certain sectors where the profitability level and the margin level is better, the loss is quite significant.

So as far as the mix is concerned, we have certain impact coming from the adverse sales mix. We were also constraint to set our plants in order not to produce and build, pileup inventories. So that resulted into fix costs absorption for certain amount of time during the year, mainly fixed costs on account of depreciation and employee costs. However, on all other expenses, even quite many of them are fixed in nature, still we could flex. We continued our efforts, we instituted and accelerated 8% flex most of this cost, some of the examples that Harsha already mentioned.

So operating margin decline is because of the conditions of the market. However, this decline would have been even more had this measures on cost savings would not have been instituted and efficiently introduced. On the localization side, I would request Harsha to comment.

Harsha Kadam: Yes. As I had even mentioned even in the last call that our focus is on localization and we continue to make investments to localize and reduce our import content. Our plan is to get our localization content to almost 75%. Currently we are there at around 57%, hence you see the investments not stopping. Incidentally, this year we would be integrating the new plant expansion that is happening in one of our plants in Savli, which is going to bring in more product lines and capacities that will be needed. So the intent here is that we will be ready for growth when it happens. We don't want to lag the market; we want to be ahead of the market.

Nishit Jalan: And sir, my second question is, on the automotive side, on the passenger vehicle segment, are you supplying to the new players like KIA, MG Motors and Hyundai in a bigger way? Or you are a much bigger supplier to the likes of Maruti and other players? Because there has been some shift in the mix of OEMs in that segment, and also shift in terms of mix towards SUV. So just wanted to get your thoughts on that.

Harsha Kadam: Yes. We are there very strongly present in Hyundai and with KIA both, in the belt and chain drives and our **(Inaudible) 44:28.0** components we are very strongly present with them already. This is also going back to the good business relationship that Schaeffler enjoys with Hyundai in Korea, we are a very strong player in Korean market as well. So that directly reflects the relationship that we enjoy in India as well, and that helps us a lot.

Nishit Jalan: Thank you. My last question is on railways. We had introduced two products, especially on the TRB side for railways last year. Just wanted to understand, now, are we also manufacturing wheel base bearings for railways or we are not doing that yet?

Harsha Kadam: We are already doing the one class of bearings for the railways here in India, the wheel bearings. And we have already developed the next generation, which has a higher load carrying capacity. And it is getting validated by railways as we speak.

Nishit Jalan: Okay. And sir, just a related part of it. On railways, you have been growing strongly, but do you see that the market is also seeing such strong growth? Or basically, just because that recently we have introduced new products, we are seeing a market share gain? And a related part would be, have you started seeing demand coming in from our dedicated freight corridor? Because that was supposed to be a big driver of demand for bearings, especially on the railways side. So where are we on that?

Harsha Kadam: Yes. We see a strong demand coming primarily which, as you know, the last budget also talked about push for infrastructure growth, railway is one of the sectors where the government is investing heavily. And clearly, the setting of the hub, the freight corridor is an indication for us to launch the next heavy-duty bearings, which we have already launched, it's called TAROL Class-K, and this is specifically meant to carry higher loads going up to 32.5 tonnes. And we are definitely watching the sector grow and we are preparing our investments in line with that.

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

Harshit Patel: So you mentioned that the 53% of the sales is from automotive and 47% from industrial. I just wanted to know whether it was for fourth quarter or for entire CY19.

Harsha Kadam: It's is similar for fourth as well as full year, more or less same throughout the year.

Harshit Patel: Sure, sir. And sir, within automotive, could you bifurcate what would be the proportion of aftermarket and similar on the industrial part as well?

Satish Patel: The aftermarket, within the automotive space would be, if you were take 18% of the auto sales would be aftermarket sales.

Harshit Patel: And that would be for CY19, right?

Satish Patel: Yes.

Harshit Patel: And similarly on the industrial front, sir?

Satish Patel: 15% of the industrial sales would be the aftermarket sales.

Harshit Patel: Sure, sir. Thank you. Thank you very much, sir. That was all from my side.

Moderator: Thank you. The next question is from the line Sandip Tulsiyan from JM Financial. Please go ahead.

Sandip Tulsiyan: Sir, I just had some follow-up questions.

Harsha Kadam: Just to clarify to the previous question, 15% of total sales and 30% of the….

Satish Patel: 15% of the total sales industrial aftermarket, and 35% would be for the industrial.

Sandip Tulsiyan: All right. Hello, sir. Just a couple of questions I had. So if you could also guide for what are the growth targets that we have for CY20, which we usually give out at the beginning of our calendar year?

Harsha Kadam: Well, I can't give you numbers right now, but then all I can say is that, yes, definitely, we have a growth budgeted over the last year for the year 2020. And clearly, we have planned growth in all the sectors that we play in, including the automotive space. What it clearly means is that the percentage of growth could be lower in the automotive, but certainly we want to continue to grow and ride the wave even with the transition in technology that is happening. We do have some high growth sectors, as I mentioned earlier, railways and wind. And we are clearly leveraging the growth story there. We are poised already with investments already and products in the pipeline, and we will continue to grow with these high growth segments.

Sandip Tulsiyan: Understood. Sir, the second question was on the automotive side. If you could give some mix between engine chassis and transmission within and within the automotive? If you could share how those three parts are in the current financial year, that is CY19?

Satish Patel: Okay. Well, our engine systems would be about 14% of the total sales. And the belt and chain derive would be about 7%. Transmission system would be able 22% in all put together. And our chassis would be about 7% in all.

Sandip Tulsiyan: This is only the OE part, right, not the aftermarket?

Satish Patel: No, it doesn't include the aftermarket.

Sandip Tulsiyan: Got it. And sir, last question I have, you did give a detailed outlook on the railways business, but just want to understand from a mix perspective, how is it split between different components of freight, passenger, metros? The reason is that in the current budget, the allocation towards rolling stock was significantly down by Indian Railways. So probably we might expect some private sector or metros to pick up. So how is it split currently, if you could give us some sense of your mix?

Harsha Kadam: Okay. I don't have the specific numbers with me, but what I can tell you is, if I were to split between the railway and the metro, the metro would constitute about 20% of the total railway growth story. And metro is definitely a growing segment, as I mentioned earlier, because of the large exports that is happening from out of this country. And we have presence for the axle box bearing there and the traction motor both, plus we are now introducing new products like insulated coated bearings, which will need in an electric locomotive, be it the Indian railways or the metros.

So since these factors are growing and with the privatization initiative that Delhi-Meerut sector has already opened up for bids, and we do see private sector competing for this, and we are actively engaged with our customers there. And we certainly believe that going forward as well, we can continue to have a growth story in the railway sector.

Talk about the freight trains, as I said earlier, we do have products which are specifically meant for higher load current performance in the freight sector. And talk about the locomotives, we talked about new e-locomotives, as I mentioned earlier, we have new products and we continue to add more products range within this product portfolio of insulated bearings.

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

Mukesh Saraf: Firstly, you had mention that you are introducing new products for the gasoline side of it, which will probably help you kind of offset the impact on the reduction of diesel vehicles. Could you give us a sense if most of these new products that you are adding are localized? Or are they right now imported? And if they are imported, what's the timelines for looking at localizing these?

Harsha Kadam: Well, without getting into specifics, all I can say is that currently, yes, we intent to import large percentage of the gasoline need. We do have the products and solutions. As the volume picks up, surely going forward, we do have a localization plan. Hopefully, looking at the response of the market is going to be, and since this year is a defining what with the BS-VI norms kicking in. And certainly, we do have it on our radar to make investments.

Mukesh Saraf: So I mean, just a very broad sense, could this just take couple of quarters to localize or could this take slightly longer like maybe a year or so? I mean just to get a sense, because it will obviously impact our margins a bit being imported versus manufacturing it earlier for the diesel parts. So just trying to get a sense of that.

Satish Patel: I agree with you. I would keep a one year horizon.

Mukesh Saraf: And just my last question is on pricing in general, have we seen any change in pricing at all on your industrial side of it, aftermarket or the OEM business? Any changes in pricing in the last few months or anything that we are looking forward to, any changes in pricing?

Satish Patel: We have not seen any changes in the pricing what with muted market demand, and customers are having liquidity crunch and cash flow issues. So it was not conducive or rather easy as well.

Mukesh Saraf: But any reduction in pricing that we might have to see?

Harsha Kadam: Well, yes, we do see pressure from the customers coming in. But if you look at the inflationary trends in the country and the volumes having dropped, it would have a double effect on the bottom-line. So we have been working closely with our customers and we have already initiated what we call is VAVE projects, and these are primarily intended to give a win-win solution between us and the customers. VAVE projects are value analysis and value engineering projects. On the current solution, how can we optimize the cost and then share cost reduction, that's the approach we're taking.

Moderator: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, if you can talk about the CAPEX plan for CY20 and, broadly, where are we planning to invest and what will be the outlay for CY20? That is my first question.

Satish Patel: Well, again without giving the specifics, all I can say is that this year too we plan to invest a little over Rs. 200 crores in capacity expansions and we will begin new product lines that are strategically important to continue to grow our business in India. So for the moment, that's all I can say.

Shyam Sundar Sriram: So, this is largely for the Savli further expansion there or anything else, sir?

Harsha Kadam: No, it would be both in the automotive and the industrial as well.

Shyam Sundar Sriram: Okay, understood, sir. Thank you sir. And in terms of revenue synergy is under the One Schaeffler initiative, we now have the entire automotive products suite under the one umbrella. If you can share any success stories of any bundling initiatives that we have seen in the last, since the merger. If you can talk about that, that would be helpful.

Harsha Kadam: Yes. The merging has actually helped us to work more efficiently with the better synergy. As you know that we have the free product portfolio for the engine applications and, from an industrial side, we don't have application for the transmission and wheel. So there are many customers with whom we were working as independent teams. Now that we are sitting in the same corporate office, the entire automotive industry have been sit next to each other. There's a lot of synergy that happens every day. And as a result, there is a communication flow and there is a better strategy formulation to handle our customers' concerns. Nutshell, the idea of this entire synergy and the merging is to make sure that the customer experience the efficiency off of the Schaeffler team in front of them, and that's all intended. We are able to demonstrate that we do have strong feedbacks coming from customers that post-synergy, they do see a lot of improvement in the efficiency levels and our speed of response, and as well as empathy levels.

Shyam Sundar Sriram: Okay. Understood, sir. Even on the automotive aftermarket also, has there been any improvement with the merger of the sales forces, also, is there any better traction? Or are we able to address a wider range of distributors there in the automotive aftermarket post the merger?

Harsha Kadam: Yes. Certainly, we see a huge potential to grow the automotive aftermarket business. As I mentioned during my presentation that in Q4, we did grow almost 27%. Of course, this came largely from the increased demand for our aftermarket products in the market naturally, because as less and less cars are sold, people want to maintain the vehicles with them and that spurts in demand which we see already happening. The intent is of course going forward that we capitalize on this, we continue to launch new products and, thereby, we continue grow strongly in aftermarket as well.

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

Vijay Chaudhury: Ladies and gentlemen, thank you for your participation. We will now close the call. If you have any further queries, do reach out to me or drop an e-mail to vijay.chaudhury@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.