

SCHAEFFLER

“Schaeffler India Limited
Q4 CY2021 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, good day and welcome to Q4 CY2021 earnings conference call of Schaeffler India Limited. 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 Ms. Gauri Kanikar from Schaeffler India. Thank you and over to you, Madam!

Gauri Kanikar: Thank you Margaret. Good afternoon everyone and welcome to the Q4 and full year earnings conference call for Schaeffler India Limited. Today we have with us Mr. Harsha Kadam, CEO, Schaeffler India and Mr. Satish Patel, Director of Finance and CFO, Schaeffler India. Mr. Kadam will take us through a short presentation on our results after which we open the floor for questions. Thank you and over to you Mr. Kadam!

Harsha Kadam: Good afternoon to everyone. A very warm welcome to our earnings and conference call here. I am Harsha Kadam the CEO and along with me.

Satish Patel: I am Satish Patel, CFO of Schaeffler India Limited. Welcome you all.

Harsha Kadam: I would like to take you through our Q4 performance as well as the calendar year 2021 performance. So, I move to the slide number two, which is going to talk about the agenda for today's meeting and I will cover the presentation under three broad areas. Firstly, updates on the industry and the economy. Secondly an overview of the Schaeffler India Q4 and the 12-month 2021 performance followed by a quick summary of our value creation initiatives undertaken over the year.

I move to the next slide, which is about the economy and while the outlook remains positive, the GDP growth for Q3 FY2021 was projected at 8.4%. Having said that the Indian economy is expected to grow at 9.2% for the entire year after contracting in the previous year. While the index of industrial production the year-to-date registered performance was 15.2% compared to a degrowth of 13.3% same period last year however it is expected that some of the sectors like mining and manufacturing which grew well at 16% and electricity grew up at 9.4%. We have continued to see some traction across some of the sectors including the overall economic activity has recovered fast the pre pandemic levels. We are also seeing some new third wave in the form of omicron which began to emerge in the last month of last year. Although it appeared to be a milder version but definitely it did have some impact on the economic activity in the country. Also, what we see making a comeback is the inflation and we see that the consumer price index which is at 6% for the month of January 2022 and at the back of increased fuel prices and supply chain disruptions, we believe that we are seeing some inflationary trends on the horizon already so we continue to see the index of industrial production and the eight core index growing albeit at a lower rate than the previous quarter but we believe that the growth momentum still will be sustained.

I move to the next slide which is going to talk about some of the core sector performances and here to what we see is the growth momentum which is continuing to be visible in the industrial sector. Cement production in the country as you can see last year grew by about 21.5% when compared to the previous year and by percentage of weight contributing about 5.4% of the GDP. Look at the steel production and that too grew at about 18.4% when compared to 2020. Mining and coal grew at about 6.3% and surely electricity as I already said about 9.2% so some of the core industrial sectors have shown a good recovery and a stabilized growth rate were visible towards the second half of last year.

I move to the next slide, which is talking about the automotive production. Despite the challenges that were faced during the year, we did see some growth in some of these sectors in quarterly manner. The sector which actually did well for the entire year more or less was the commercial vehicle sector so when you compare the commercial vehicle sector Q4 performance over the Q3, the commercial vehicle production numbers were 6% up. The same was the case with the passenger vehicle sector in spite of the chip shortage it did manage to grow 1.9% over the previous quarter in 2021. While the tractors and the two wheelers were two sectors which were severely impacted and we saw degrowth, the tractor degrew by 31.4% when compared to the previous quarter. The two wheelers degrew by 11.1% when compared to the previous quarter so all in all when we look at the vehicle production in the country for the Q4 of last year vis-à-vis the Q3 of last year we saw degrowth of almost 5%. Compare that with the Q4 2020 also we saw significant drop in the production number passenger vehicle was down 6% when compared to Q4 of last year and the tractor was down 27% when compared to Q4 of 2020 while the commercial vehicles continue to show some strong recovery and growth. Hopefully with PLI scheme that is now being pushed across very aggressively to boost the domestic manufacturing effort we definitely hope to see some recovery in the automobile sector going forward as well.

I move to the next slide which is talking about the union budget that was passed recently on the February 1, 2022 and in nutshell the summary is that the budget entails a long-term vision of the country with key focus areas to stimulate and sustain the growth rather than the short-term tax proposals and subsidies. Some of the key announcements impacting the automotive and the industrial sectors are the significant increase in the capital expenditure to boost infrastructure and also the aim to cut down the logistic cost from the current levels of 8% to 10% to 5% of the GDP or not to mention of course the continued trust on the domestic manufacturing with a lot of localization initiatives that have been encouraged. Another focus area in this budget has been the climate change and clean technology area, which is mobilizing the battery swapping policy and also the green energy of hydrogen and such impetus being given to the solar and the wind to increase the installed capacities to 280 gigawatts so there has been a lot of focus on the green energy side clearly in line with the government's commitment to decarbonize the economic activity in the country. Look at the regulations and the regulatory changes. Surely, we will be going through another change in terms of the emission norms with the CAFE norms that is getting implemented now and also there is some talk of BSVI, Bharat Stage VI phase two and hopefully this is going to open up more opportunities for technology products and players like us who can bring value offerings to the market.

Moving on to the next slide which is where I would like to throw light on the performance in the Q4 as well as the 12-month period of 2021. I go with the slide on the Q4 2021 performance. All in all, the Q4 of the year, we were able to post a strong robust performance and I am pleased to say that we deliver healthy revenues and record profitability gains for the quarter. So, having said that the revenues stood at Rs.15232 million which was the clear 19.6% phase growth compared to Q4 of 2020 and compared to the previous quarter of Q3, which was 2.4% better. Looking at the EBIT margin and we were able to deliver a robust healthy EBIT margin of 16.1% for the quarter and when compared to the Q4 of 2020 where we had delivered 14.2% and an EBIT level of Rs.245 Crores that we were able to deliver within the quarter. The profit after tax margin stood at 12.5% for the Q4 while the same period last year was at 11.1% and for the Q4 we delivered Rs.190.6 Crores the profit after tax. Having said that the pre cash flow was another area where we took some aggressive steps to bring cash into the company and we were able to bring in Rs.185 Crores into the system, which was definitely lower than the Q4 of last year, but certainly helped us to shore up cash into the company and also we would like to share that the board of directors recommended a dividend at Rs.16 per share per equity share at a face value of Rs.2 with a payout ratio of 40% and as we enter 2022 we also saw the emergence of the third wave, which could effectively mitigate the risks although we have gone ahead and ensure that all our employees are vaccinated. We will continue to see some headwinds due to the semiconductor shortages as well and some input cost pressures that were facing. Another millstone that we crossed during the year was the signing of the memorandum of understanding with the Government of Tamil Nadu for our new project plant expansion at Hosur and these were some of the highlights and one low light which we see that some challenges definitely exist on the horizon.

I move to the next slide and here I would like to talk some of the business winds we were able to secure in Q4 of 2021 and the business wind were in all the areas of automotive OEM space, the automotive aftermarket space as well as the industrial space. Now talking about the automotive OEM space some of the key products that we were able to bring out were on the dual clutch transmission dampers, the clutch applications as well as the cam phaser applications for the engine and also the wheel bearing applications for the passenger car segments. We were able to secure new businesses in the quarter and resulting in significant gains of the business which is now starting to pick up and we will see the full realization of these businesses in both years to come. Having said that on the automotive aftermarket as well we continued on the journey of adding new product lines and expanding our product portfolio. Some of them were the introduction of the clutch for the light commercial vehicle segment. Also talking about the timing kit and the front-end auxiliary drive systems for the passenger vehicles as well as some of the range extension products like shock absorbers that we have launched in the Q4 of last year.

Coming into the industrial space we had some significant gains coming in on the back of some winds from the mining industry, the construction equipment industry as well as some significant gains coming in our digitalization effort by the way of conditioning monitoring equipments where we bagged orders which we will be servicing in the year 2022 and 2023 as well not to mention of course we did get some two row cylindrical roller bearings and spherical rolling bearing orders for the raw material and metal sector.

Having said that I move to the next slide one of our strongest performance has been the export area and with a state of products that we have started to relocate into India obviously our strategy on export progressing well. While we are committed to continue to make the necessary investments in the capacity, capability and competence build up, we would also like to leverage the cost competence of the country to growth the business outside of India as well so having said that a number of products lines that we have started to bring into India starting with the angular contact ball bearing and the two door cylindrical ball bearings and two row taper roll ball bearings for various sectors. We have also started to expand clearly into Asia Pacific region, and we saw some significant gains in the business within the quarter in the Asia Pacific region as well and we have also started to now extend our market in Europe as well as in Americas leveraging the cost competition as well for the country. To enable that we speed up the time to get the products to the market we also have started to argument our R&D and computer aided engineering capabilities within the country. We have built in more competencies into the system to enable efficiency in the entire product development process as such. Not to mention of course design and validation which would call for infrastructure by the way of test strings through are being addressed so that we become self contained in our set ups so that we can complete the home allocation of the products that we deliver to the export market as well. All in all, 2021 for the entire year our exports grew by 70% clearly the highest growth that we have seen dealing in the export sector.

Moving on, I now come to the revenue from operations and as I said we have been able to sustain a robust performance quarter on quarter and as we can see while the cost was high we were able to deliver Rs.1523 Crores which was 2.4% better than the previous quarter but compared to the same quarter period of 2020 it was 19.6%, definitely better. So, having said that the entire year 2021 the total revenues stood at Rs.5560 Crores compared to Rs.3762 Crores in 2020, which was down year due to the pandemic so where did the business come from and as you can see the bridge below the majority of the business came from the exports which was clearly 804 million coming out of exports. In the industrial too on the back of our distribution business or the aftermarket business in the distribution and the wind sectors predominant growth there with 943 million. The automotive aftermarket too grew by 391 million and the automotive OE technology as you can see here 356 million when compared to the Q4 of 2020. All in all, strong growth in all the business areas as you can see on the right side the key aspect. The sales stayed resilient however we began to see some softening of sales in the auto technology area in the Q1 of 2021 as you can see compared to 2020 the growth was only 6.7%. Fundamentally this is attributed to the semiconductor shortage that the entire automotive industry is going through which definitely had an impact on our business as well. The automotive aftermarket we were able to project a strong growth as well in double digit industrial too strong double-digit growth when compared to the same period last year however the export as I said earlier, we had a phenomenal growth story there to tell and on the quarter-on-quarter level 61.6% and year-on-year level at 70% growth has been a good performance. While we continue to work well on the market we also ensure that the plants were back to their normal capacity level and we had a good capacity utilization towards the second half of last year and we continue to keep the balance between the automotive and the industrial space that we have while we continue on our journey to grow the export market.

I will move to the next slide, which is talking about our EBIT margins for the quarter which was very robust at 16.1% as compared to 14.2% in the corresponding period of the previous year and 14.9% in the quarter compared to the previous quarter. Having said that the EBIT stood at Rs.245.1 Crores and the volumes gains coupled with sustained counter measures that we have put in place ensured a robust profitability development here. Also, our strong process has helped us to manage the cost as well as mitigate some of the risks across the value chain and based on that we were able to deliver a profit after margin of 12.5% for the quarter versus 11.1% for the same period of the previous year and 11.5% for the preceding quarter that we went through.

I will move to the next slide, which is throwing some light on the working capital and free cash flow. We continue to keep our focus on the parameters and I must say that we saw some improvement in the Q1 with our working capital stood at 18% of the sales which was better than the previous quarter which was at 19.3% of the sales as well as we continue to judiciously look at our investments last year and we are consistently at about 3.5% of sales coming for every quarter across the year and the total capex for the year was at Rs.192.9 Crores and when looking at the free cash flow after the wave two that we went through in the Q2 where we had a negative cash flow we bounced back and while in the Q3 we were able to bring in Rs.108 Crores. We were able to bring in Rs.185 Crores in the Q4 of 2021. Moving on, the key performance indicators while we can see here while the revenue growth was at Rs.5560 Crores compared which was 47.8% better than the previous year which of course was the highest year and we saw 13.7% degrowth due to the pandemic in the year 2020 when compared to 2019. The EBITDA margin in the Q4 stood at 19.4% when compared to the previous preceding quarter which was 18.2% at an annualized level as you can see. We ended the year with 17.9% EBITDA margin, but when we compare with the year 2020 was 14.4% and EBIT margin finally for the quarter 16.1% and the preceding quarter 14.9% and for the full year 14.3% versus the 9.2% in the year 2020. That brings us to the earnings before tax. Margin at 16.9% which compared to the preceding quarter which was 15.4% and at an annualized level 15.2% compared to 2020 which stood at 10.6%. So, all in all, the profit after tax margins as I already shared, we were able to close the quarter at 12.5% and on annualized level at 11.3% on the same period in 2020 was 11.5% for Q4 and at an annualized level was 7.7%.

Moving on some information on the stakeholder value creations the actions we took. Let me start first with the corporate actions that we took. As you all know, we had already initiated in the last quarter board meeting, we had put the proposal up for approval adding on to our value creation. One of the corporate actions was the type of stocks clip which we had initiated in the last quarter. Finally, that has been now completed and approved by the board of directors on October 28, 2021 and approved by all the shareholders by December 19, 2021 and the top split came into effect from the February 9, 2022 and I would like to stop here and take the opportunity to thank all our shareholders for having supported this decision in approving and giving us your formal approvals. Thank you so much.

With that I would like to move on to the next slide which is one more corporate traction that we did was on the dividend payout that we enabled in this quarter and as you can see the board of directors of the company have recommended a dividend for the year on December 31, 2021 at

the rate of Rs.16 per equity share of face value two and as you know before the stock split happened if I were to compare last year the dividend payout was Rs.38 per equity share at a phase value of Rs.10. Now having said that this is another step in our endeavour to create value to our stockholders and we will continue to bring more value as we move forward. Having said that it is important that we have a very clear road map and the journey ahead how are we going to do it and I would like to take the opportunity moving to the next slide which is going to talk about sustainability. Focus Schaeffler as a company sustainability plays a key role in implementing of operative strategy and the decarbonisation of the Schaeffler Group by 2040 is the top priority for us. Through our defined targets and specific measures, we are doing our part to help achieve the objectives of the Paris Climate Agreement that all countries have got into now, but in doing so we are strengthening our position as the preferred technology partner and a supplier of sustainable solutions. So, having said that with this we have now taken our self-imposed target that Schaeffler Group would become a climate neutral company by the year 2040 and this objective covers the entire supply chain by the ambitious midterm sustainability targets and the targets that you see in terms of sustainability would encompass the four areas of environment and energy, customers and products, employees and also the suppliers and the materials as well. Having said that a clear KPI are being fixed already and we would like to continue to keep the focus on this journey so what does this mean for Schaeffler at an India level.

I move to the next slide which is going to talk about our impending journey on the ESG which is going to address predominantly the four target areas that we talked about and clearly we are now putting the strategy on the way forward and our strategy should be ESG led and it should be approached in holistic manner and all the business areas would address this journey on ESG so currently we are in a situation where we are formulating the ESG strategy and implementing the road map and various steps involved in the process. The first is to define the ESG purpose which is being done. The second would be to do a base lining and then frame up the strategy and the road map which we have just now started and the third stage would be where we get into an agreement mode and then we would get into disclosures and reporting in communication to all the concerned stakeholders. Having said that we have identified some of the areas where we believe we would like to focus on going forward to a materiality and assessment that we have carried out and we are now in the process of picking the vision and target what we see on the right side. Going forward we would also look at various areas to transform Schaeffler in India to bring the area of capital planning and work force planning, operations management and that would be leading to disclosures wherein we would be talking a lot about what are we doing. It is not just about what we do and achieve, how are, we achieving these things and that is going to be the key focus area going forward that is there. Having said I would come to the last slide of my presentation wherein I would like to summarize that we have a strong quarter and a calendar year performance across the businesses by diversified portfolio and the performance improvement due to better mix definitely and also our sustained effort on the counter measures that we have laid down at the beginning of the year which we continue to keep the focus upon and also the focus on ESG as a journey. We aspire to align our environment and social targets to develop a strategy clearly adjusting the risks and opportunities. Now having said that we will continue to sustain our performance while dealing with the challenges and some of the risks that we see on the horizon

as such and with that I come to the end of my presentation. Thank you so much. Over to you for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vimal Gohil from Union AMC. Please go ahead.

Vimal Gohil: Thank you Sir and congratulations on a very strong calendar year? Sir my first question is on margins? In the backdrop of rising raw material costs and we have seen most of the companies across the board have suffered on gross margins whereas you are completely opposite trend so just wanted to get your sense on what has led to this very strong gross margins and related to that would be if I were to look at your opex this quarter that has grown at a slightly faster pace than usual and it is now at a run rate of more than Rs.200 Crores? It used to be Rs.170 Crores just two quarters back? What has led to that increase? I just wanted to get your sense on overall margin performance whether this is sustainable, not sustainable, etc.?

Satish Patel: Yes, thank you for the questions. Satish Patel here. As far as your question about the margin is concerned for the quarter as we all saw have mentioned in the presentation there are actually two contributors to the margin improvement in the quarter one is the improved mix. We had better performance of revenue in exports. The exports grew significantly during the quarter and we also had significant good performance in our businesses of aftermarket and distribution business. So, this business has actually helped margin profile better than other businesses and actually contributed in terms of the better mix to the extent contributing to the margins as well. The second contributor for the quarter is the counter measures that we had initiated since about two years since the onslaught of the pandemic. Those counter measures we could sustain and the cool realization of quarters of the quantum has actually realized in Q4 so that in a way helped in improving the cost position, our cost discipline enable that and that also contributed to the margin improvement. As far as your question about margin also to the extent of the steel prices is concerned is very valid. There was a significant increase in the steel price anywhere from 30% to 50% in the respective input of steel however large amounts of the steel price impact we could mitigate either by recovery from the market or by internal measures because we have initiated as part of our counter measures also several projects on the material cost side by instituting certain actions like alternate material, alternate sourcing and those actually also contributed in terms of the compensation of those impact so all in all competition from all these aspects and that helped retaining as well as improving the margin position in the quarter, that is Q4 of 20221. The impact of the counter measures that I actually talked about already had since the beginning of the year and therefore for the full year also if you see when the preceding quarter which is Q3 as well as the first half the performance in terms of the result was quite better. It further improved no doubt in Q4, but the initiation of the company that we had on the cost side since those were laid out early enough about one and a half year back that helped achieving the margin position on a strong note already from the beginning of this year so that is the main sort of reason. Now coming to the connected question is this sustainable or not yes to a large extent yes and I would not say everything would be possible to sustain. As far as our company is concerned and this we had also mentioned in our earlier earnings call that about 40% to 50% of the measures that we take are sustainable so most of the things we are hopeful of sustaining. Material projects also

would continue to contribute in the future and the steel price as nobody knows, which direction it will move from now but whichever direction it move to the extent there would be corresponding impact also on the size of the recovery so that is the nature also about sustaining the margin. Yes we have the balance business portfolio that also in a way helps ensuring that our margins are sustained and we put our actions on the execution side. The execution side this year actually was very, very effective and we hope that we would try our best to continue those actions also going forward. Another question was some Rs.200 Crores and Rs.170 Crores.

Vimal Gohil: So, the opex number this has now come to almost Rs.206 Crores? This used to be about Rs.170 Crores in Q2 so if you can just help us understand what has led to the sharp increase in the last two quarters and how will it trend forward?

Satish Patel: So, on the capex side.

Vimal Gohil: I am so sorry. It is the opex number the Rs.206 Crores other expenses that are there in the P&L? This number used to be around Rs.170 odd Crores? In let us say Q2 of CY2021 if you can just help us explain what has led to this sharp increase in the other expenses?

Satish Patel: So, some of the expenses are in the outside services area where we had certain services actualized in the last quarter. There are also certain expenses which are because of the performance in the quarter they are approved. There are no specific reasons of relating increase in the expenses. The expenses have gone up no doubt in absolute terms by about Rs.30 Crores but there have not been any let us say relative increase in the expenses. The fixed costs more or less have remained fixed. I do not see any particular expense if they are significantly gone up. Those outside services which have been actualized in the last quarter that is the only area where the expense has gone up otherwise on most of the other expenses side there have not been any increase. Another expense which is the CSR expense, which we were required to accrue, and the large amount was required to be accrued in the last quarter so that was another expense which was actually higher in the last quarter so couple of them yes increased otherwise most of the expenses have remained relatively at least level those were there in the preceding quarters.

Vimal Gohil: Sir what exactly what would these outside services be and how much was the CSR expense in this quarter?

Harsha Kadam: CSR expense was about Rs.4 Crores to Rs.5 Crores and outside services should be about Rs.8 Crores to Rs.10 Crores.

Vimal Gohil: Sir what are these outside services?

Satish Patel: Those are all contracting out services, contract labor services, and IT services. They are kind of varied nature of services.

Vimal Gohil: Sir the next question would be to Harsha Sir. Sir if you could just help us explain or rather give your commentary on what is the traction on the gasoline products that we had introduced post the seemingly high pressure on our diesel related and generated products and if you could just help

us where are we in terms of the content per vehicle bearing and more important question is the ever important question on electrical vehicles? How much of our portfolio or what exactly are we doing it to going to shield ourselves from the inevitable electrical vehicle event?

Harsha Kadam:

Let me first take the first part of your question which is more on the, our efforts to develop products for the gasoline applications. As already shared in the earlier meetings as well that we are continuously bringing in products to cater to the gasoline market and as more and more cars and vehicles are coming in with gasoline engines, our product offering have increased. Having said that the proof is when you look at the industry itself if you were look at the passenger vehicle industry in the Q4 compared to the previous preceding quarter just grew by 1.9% in terms of vehicle production. Having said that our growth was definitely significantly in double digits much better so truly our actions in the gasoline technology continues and we will continue to build on it and which I going to definitely raise the content of vehicles and currently we are in the 40s already 40 euro per vehicle content of vehicles in that range and we see increase happening in the second half of this year and some of the projects which I shared in my presentation are going to start scaling up in terms of demand and volumes, which is going to happen now so some of the like camp raising systems that we have launched this is all going to start to materialize and we see the content per vehicle set to only grow so that is on the gasoline versus the diesel. Talking about you had a question on the electrical vehicles right. Yes, currently if you were to look at our percentage of the revenue we generate on the e-mobility sector that is pretty small, it is just about 3%. These are products which we make for the electrical vehicle applications primarily some in the passenger vehicles and some in the two-wheeler and three wheelers, but we have clear strategy as well as plans to play a bigger role in this game of electrical vehicles. Three areas, which we have aggressively pursuing is one on the electrical motor. The second is on the motor control units and the third is on the thermal management symptoms for the electrical vehicle application. All the three we are focused upon and work is going on and we are already engaging with some of the key customers, and we will definitely share with you as the product get rolled out into the market. It will certainly bring visibility to that aspect.

Vimal Gohil:

Thank you. The next question is from the line of Priyaranjan from HDFC Mutual Fund. Please go ahead.

Priyaranjan:

Very strong set of numbers so congratulation on that so first on your business mix if I look at the reporting numbers so there is a certain element of industrial also in the automotive side so what are those area and can you just bifurcate? Is it like say two-wheeler or tractors or trucks which are all you consider inside the industrial segment of the automobility business?

Harsha Kadam:

Well, the way we have structured is mainly based on the product ownership per business area. The products, which predominantly go into the two wheelers means bearing and ball bearings they are within the industrial ownership of portfolio but there are products which are also under the automotive so we do the business from the automotive side of our business vertical in the two wheeler space so some of the products like the wheel roller bearings that go into the applications of two wheelers some of the one way clutch products and a few others which are under development would be coming out of our automotive portfolio as well so to clearly demarcate

and say that two wheeler is clearly bracketed under industrial would be incorrect. There is some percentage of a business that happens from the automotive side as well. That is the first thing. The other thing is when you look at even the same would apply to the tractor segment because tractors too are part of the businesses with industrial and part of it is with automotive because the clutch and transmission system products they are owned by the automotive part of the business. The bearings is owned by the industrial part of the business so both the businesses so for accounting reasons it is easy for us to maintain it within the business verticals and track the performance.

- Priyaranjan:** Got it and the railways also are under mobility?
- Harsha Kadam:** Well railway is considered under mobility, but it is in the industrial space servicing. The entire business and the product ownership both.
- Priyaranjan:** Understood and Sir in terms of broader mix like say what was the contribution from say four-wheeler and trucks and two-wheeler side in the current fiscal year 2021?
- Satish Patel:** It is not available because we take our automotive business into engine business, transmission business, and chassis assisting in those sort of segments and not in vehicle segments, but I can give you some idea with regards to the wheeler business. That is about 8% to 9% of our total business and if you talk about only industrial within that two-wheeler business would be out of double uptake which is 16% to 18%. Off road would be about 3% to 4% of the total business of the company and of the industrial business alone it would be about 6% to 7%.
- Priyaranjan:** Understood and passenger side four wheelers used to have roughly 25%? One fourth of the business used to come earlier so that will broadly remain same and that has also changed with the content going up?
- Harsha Kadam:** Actually, that we believe that will go up. Again, it depends. Now if one were look at the Q4 performance the passenger vehicle sector itself has slowed down so the demand went down but the commercial vehicles did well and we have now increased our business in the heavy commercial vehicle segments with our clutch offerings the 430 millimeter Dia clutches so having said that so you may see some shift shape but more or less it is in the same range of 20% to 25% what you talked about.
- Priyaranjan:** Got it and the one good performance was on the export side so 70% growth can it continue for a couple of years because even if I look at your number it is roughly still around 14% to 15% but I guess your target was roughly around 20% export if I am not wrong so can we expect this kind of growth continuation for the next couple of years?
- Harsha Kadam:** Well our strategy has been clear right from the beginning that we would be making a lot of investments coming into India only for exports as well primarily coming on the back of the cost optimization that we believe is in India and also the knowledge and intellectual capabilities that are there here so we would want to leverage both and make India the manufacturing hub of some

of the specific product lines, India is going to be the only country which is going to manufacture these products and so this is the clear strategy we have and the next five years certainly we are going to continue to make more investments, bring more products and products are getting shifted in from European plants to Indian plants and that is going to continue. Satish you want to add.

Satish Patel:

Absolutely. I think very nicely laid out Harsha and as far as exports are concerned now it is an integral part of our strategy and rather we are actually having the specific focus on exports in terms of investments so we have been expanding our capacities for specific products, which are export oriented and particularly products like tapered roller bearings, large size bearings, stack bearings, CRBs and one way clutch. In erstwhile times we had focus on CRB gladly for exports but we have expanded the portfolio and actually covered all these products segments and there are opportunities including opportunities for digi bearings which are actually category of the ball bearings in other parts of the world specifically Asia Pacific region so we have strong growth potential in Asia Pacific as well as in Americas in addition to continue growth in Europe region and help in sort of focus or certain specific product development in India precisely because of the reason that Harsha talked about with regard to the engineering R&D and in addition to that also the cost competence. I think we also have the cost competence in India and the products are of best of the quality, well accepted, well experienced and well tested so that actually offers lot many opportunities and India is one of the strategic focus countries of production within secular group and therefore secular group focus is for sort of some of the strategic relocations also to India to secure India. That brings further opportunities of growth in exports. That is one of the reasons the export grew by 70% and we are looking forward quite a good growth in exports going forward.

Moderator:

Thank you. The next question is from the line of Sonal Gupta from L&T Mutual Fund. Please go ahead.

Sonal Gupta:

Good evening Sir and thanks for taking my question. Just a couple of clarifications? One on the passenger vehicle side like you refereed to some of the emission norm changers and the regulatory changes that are happening so how will that sort of impact your business on the automotive side and again related to that we are starting to see some meaningful shift towards CNG also so will that be unusual for us or will that be positive or negative which we could shed some light on that?

Harsha Kadam:

Thank you Mr. Gupta. Let me start when the transition began to happen from the BSIV to BSVI. Rightfully the emission norms got stringent and that definitely posed some challenges for all auto component manufactures and Schaeffler was no exception to that either, but having said that with the engineering competence and the capabilities that we have we were able to come out with products, which would meet the new emission standards and thereby we began to consolidate our positions. Now one of the shifts that we saw from the BSIV to BSVI that happened was the clear switch from the diesel technology to the gasoline technology. Now having said that we were very strong on the diesel engine applications with wide product portfolio in India. When the change happened, and it happened pretty fast we were able to quickly shift gears and bring products from

our European technology centres into India to fee the gasoline need that came up. All in all we have also started to localize the manufacturing of them in India as the volume began to pick up so if I have to summarize as the emissions norms become more and more stringent which it will surely our products are capable because our products definitely have to address friction which is one of the biggest deterrent to efficiency of the application and that is where the friction reduction is engineering and science, which is where we have the capabilities and we bring that to the table to improve on the existing solutions to generate more value for our customers and the norms become stringent so we are fully geared up to meet the oncoming the CAFÉ norms which is already happening and also the BSVI phase two which is being implemented right now.

Sonal Gupta: Sorry and just on the CNG portion? Will that have any negative or positive impact?

Harsha Kadam: Well, we do not see any negative effect here for the products that we make which go into these applications. There could be some customization required in some of the products which need based I am willing to address them as they come up.

Sonal Gupta: Got it and my second question was on the automotive aftermarket so clearly we have seen a very strong growth for the year so is this more of a normalization or how do you see this going forward in terms of your focus on the aftermarket and I believe we have been expanding the product portfolio as well so if you could just talk about the aftermarket business?

Harsha Kadam: Mr. Gupta are you referring to all performance India aftermarket or the industry as such.

Sonal Gupta: For Schaeffler?

Harsha Kadam: Thank you. So, as you know last year, we did launch Schaeffler twopower brand under which one of the products we launched was the engine lubricants oil and that was the first time we got into engine lubricant business. While yes this is more a traded activity for us but we are working with credible partners to bring quality products to the market. Now having seen the response from the market which have been phenomenal we did not want to stop there and we have now expanded our offering going beyond the engine lubricants to break fluid, oils, to engine coolants, and so on and so forth. That is on the oil as one of the product lines but apart from that as seen we would continue to bring in more products under Schaeffler new automotive products of NAP which is acronym that we use internally to launch more products on our trading portfolios. That is clearly one of the strategies for the automotive aftermarket growth that we have envisaged. Having said that we are also now seeing a lot of opportunities as the vehicle are coming into the market with BSVI conforming vehicles. We see the need to upgrade the automotive aftermarket products as well which were earlier hither to conforming to BSIV. Now they would see wear and tear and they would have to replace so we see some replication of the products happening into the new norm needs that are coming in as well as we see some opportunities where we were not participating like the heavy commercial vehicles and the light commercial vehicles particularly in the clutch portfolio which we have now started to add products there as well so what it means is while are already working very closely with our OEM customers and bringing a wide portfolio to

the OE customers we want to replicate that in the aftermarket as well and that is the second strategy which we are clearly working upon.

Sonal Gupta: Got it. Great Sir. Thank you so much for taking my questions.

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

Mukesh Saraf: Good evening and thank you for the opportunity. Sir one of the questions on margins you did mention that exports and aftermarket mix did help you margins? Could you kind of give a sense on may be if you could just rank the key segments that you have in terms of the order of higher margins like exports and after market followed by some of the other segments? Could you just give a sense of which are these segments with the highest margins and probably the ones with the lower one?

Satish Patel: It is very difficult for us to spell out or sequence our sectors into highest and lowest margins but yes we can certainly confirm that the margin improvement was the reason of the cost discipline, and the revenue mix and even within auto also there are sectors where we have high margins and low margins depending upon the risk in that sector so it would be in my opinion not be appropriate to rank the sectors in terms of margins, highest and lowest but yes it is obvious that aftermarket margins are better than OEMs right. That is the standard way of looking at the sectors but that the main reason for the margins.

Mukesh Saraf: Right and despite increase in the trade products like now we have started shock absorbers as well so you think this margin profile of the aftermarket will continue to remain strong?

Harsha Kadam: Yes, that is right. That would continue because we offer solutions right which are very progressive and actually that is going to add value to the offerings that we are providing to the market.

Mukesh Saraf: Right understood that and just my second question is on the railways? I think last quarter when you had given the commentary on various end markets you kind of called out that railways was still quite weak so just want to understand is there any change there in the outlook for the railway segment?

Harsha Kadam: There are two things here. One the railway is the tendering business as we know so as the tenders come out we would be able to play the game as well and unfortunately for us in the Q4 of 2021 some tenders did come up. We were able to execute them as well so we definitely saw almost a 9% growth in the railway sector compared to the preceding quarter, but yes we do have some gaps in our product portfolio and currently are products are still going through. They have very long lead times and currently we are going through that process, but we have a clear strategy to get back soon and you will see that our railway business definitely would start to play.

Mukesh Saraf: Alright Sir. Thank you so much. That is it from my side.

Moderator: Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Good evening. Congratulations on a great set of numbers. A couple of questions from my side firstly on the Café 22 norms if you can highlight your content per vehicle how that will get impacted which is at €40 and when guided earlier it will be between €50 to €52 going forward? Does that target change materially with the Café 22 norms coming in or was that guidance given if you can share one or two examples of the new product it will be helpful?

Harsha Kadam: Okay first and foremost to answer to your question of the content of the vehicle as I mentioned earlier we already moved to gasoline engine product portfolio which is now dominating almost 85% to 87% of the market in gasoline and we are already there so having said that our products offerings definitely are already conforming to the current emissions standards that have to be met and we will continue to improvise as the CAFE norms come in as well so what we see is our content of vehicle is only set to grow going forward and I am currently resting only on the IC engine portfolio correct and while this is happening we are also looking at opportunity to grow in the LCV segment where either two wheeler are not well focused but we have increased our focus and we see some good growth stories going to come in the near future as well so content of vehicle could certainly grow and the current portfolio of what we have would need engineering tweaking which we have the capability to do as we move forward and we will do that. Yes the electric vehicle is another ball game where the content of the vehicle would dramatically go up but the volumes still have to come into the Indian market for us to play the game on the passenger vehicle side of electrical vehicles.

Sandeep Tulsian: Sir the clarification there was when that €52 per vehicle number is sustained or would you up that guidance given these norms are coming in?

Harsha Kadam: It will sustain. We will continue to sustain this market.

Sandeep Tulsian: The second question was pertaining to the industrial mobility segment? We saw a very strong growth here and particularly railways is a key part of this segment you mentioned has not grown materially or there is still some weakness so if you can highlight the key components what are there in that particular sub segment which is shown in the strong growth of 33% on year-on-year basis?

Harsha Kadam: I would like to start by first classifying the railways into two. One is the pure railways and second is the metros the city metro trains. Well, when you look at the city metro trains the opposition is very strong there. We have a good growth story to tell where we have to do some more work is on the trains particularly on the passenger locomotives as well as the freight trains. A lot more is happening due to the government trying to bring down the logistics cost as a percentage to the GDP. Clearly the freight cars are the focus areas and that is where we are looking into how do we play the game there as well so we are working on some key projects for the railways as well to come back into the game, but metros we already are strong and we would like to consolidate and continue to build on that position there.

- Sandeep Tulsian:** So that is metros has driven the growth?
- Harsha Kadam:** Yes.
- Sandeep Tulsian:** Alright thank you so much.
- Moderator:** Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.
- Shyam Sundar Sriram:** Good evening. Thanks for taking my question and wonderful performance yet again from Schaeffler? If I may start with exports per se? You did talk quite a bit on that? Just if you look ahead into two years can the portfolio become a Rs.1000 Crores to Rs.1200 Crores kind of an annual portfolio per se or if you think in terms of a revenue mix can this start contributing 15% to 16% of our revenue mix and in our capex do we also are the lines that we are investing specific for export product lines or these lines fungible between export and domestic depending on how the demand moves that is my first question on the export side Sir? I will come back on the capex there?
- Satish Patel:** Good question. As far as exports are concerned, we already sort of talked about that we would focus on investing for the products which are actually export driven and which are actually required to be focused for the exports, so our capex goes definitely for exports but our equal focus as far as capex is concerned is also for the domestic market and domestic requirements and we have laid about Rs.1000 Crores of capex over a three-year period. We already announced last year. This year there was sort of a capex we had targeted, and we are little short of that. There is little over run to next year so we would ensure that next which is the current year 2022 calendar year some increase in capex we are planning but with that yes, I do confirm that our focus to spend and to invest appropriately to be future ready would continue to be there both for the domestic market as well as the export market and when I say domestic market it is not only just extending or expanding the capacities. It would be more of a qualitative capex because we want to actually increase the footprint of manufacturing and localization, so localization is equally a focus area. We had localization below 70%. We are now 75% and we are targeting to exit 78% to 79% in that range for localization so capex goes for all this sort of areas and that will continue to remain. Your second part of the question was regarding the mix of the exports. I would Harsha to take up that.
- Harsha Kadam:** Shyam just to give you another perspective on the investments we are making for exports. The products which we intend to produce here and export all over India. As you know India to needs those products and currently, we have been importing them so the investments we are making for the export market what would happen is obviously we would become more cost competitive by making the same products here in India to feed the Indian needs as well, so we see a dual advantage here. One is to capture the export market and growth the market and also leverage the cost competitiveness and gain more market share within India as well, so it helps with both.

Shyam Sundar Sriram: Directionally can this export portfolio touch Rs.1000 Crores to Rs.1200 Crores on an annual basis?

Harsha Kadam: It is very difficult to actually sort of spell out, but we are expecting the improvement in the mix, so export was around 10% to 11%. Now 13% to 14% and likely to improve further.

Moderator: Thank you. The next question is from the line of Sachin Maniar from InCred Research. Please go ahead.

Sachin Maniar: Congratulations for a good number. Sir within the industrial portfolio as you highlighted that in this green mobility has grown by almost 40% Q2 but within other segments that has been down by 37% so can you say which are laggards in this quarter was one of them and with going forward how the market is looking the way it is going that is my first question and how with the share industrial aftermarket for the full year CY2021 that is my question?

Harsha Kadam: Sorry Sachin. I first part of the question was not very audible if you can repeat that please.

Sachin Maniar: As I said in the industrial portfolio within the mobility has grown by 40% Q-o-Q but the industrial segment within other segment has degrew by almost 37% Q-o-Q so which are the laggards which has impacted this quarter in the industrial segment?

Harsha Kadam: I think I would like to just clarify here. For example, one of the sectors for us which has seen one of the strongest growth in the wind energy correct and we have seen a growth over the previous year of almost to the extent of 116%. Very strong growth there and another sector also which has grown is the industrial automation sector where almost 100% growth we have seen there phenomenal year-on-year growth and also when you look at the industrial aftermarket of the distribution point of the business where our clear strategy was in place to grow back there again, we have grown phenomenally much higher in double digits so clearly the nonmobility sector as well has shown a strong growth particularly in some. Yes, one of the sectors where we can definitely do better is on the railway which is the mobility sector of course. Even the raw material sector we are definitely seeing a double-digit growth rate in our business performance as such.

Sachin Maniar: And Sir can you break up the auto part into engine, transmission, and chassis for the full year in CY2021?

Harsha Kadam: You mean the growth or the mix.

Sachin Maniar: The mix Sir?

Harsha Kadam: To answer to your question if you take the automotive application, we normally classify them as engine system, transmission system and chassis system correct and if you take the engine system comprises of almost close to 14% to 15% of the total business we do.

Satish Patel: As per the total company business, the engine system is about 13% to 14% and if you take automotive it will almost double of that, so it is about 25%.

- Harsha Kadam:** The transmission is about 25% of the total business and the chassis system comprises roughly about 6% to 6.5% of the total business, but you have to almost double for automotives.
- Sachin Maniar:** Sir just last what will be the share of wind for the full year in overall revenue Sir?
- Harsha Kadam:** Share of.
- Sachin Maniar:** Wind?
- Harsha Kadam:** Close to 10%.
- Sachin Maniar:** Thanks.
- Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now hand the conference over to Ms. Gauri Kanikar for closing comments.
- Gauri Kanikar:** Thank you Margaret. Thank you everyone for joining us today. If you have any further queries, please do reach out to me on gauri.kanikar@schaeffler.com. With this we conclude the call. Thank you and have a good day.
- Moderator:** Thank you. On behalf of Schaeffler India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.