"Schaeffler India Limited Q2 & Half Year Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Schaeffler India Limited Quarter 2 and Half Year Earnings Conference Call. 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 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. Thank you and over to you sir.

Vijay Chaudhury: Thank you, ladies and gentlemen, welcome to the results call for Schaeffer India. Today. We have with us, Mr. Harsha Kadam – CEO, Schaeffler India and Mr. Satish Patel – Director of Finance and CFO Schaeffler India. I now hand over the call to Mr. Kadam, who will take you through a short presentation on our results and over to you, Mr. Kadam.

Harsha Kadam: Thank you Vijay and good morning to all of you, ladies and gentlemen in the call. I hope you and your families are safe during this pandemic, a warm welcome to you to this call today.

Satish Patel: Hello, ladies and gentlemen. Very warm welcome also from my side and happy to interact with you in this earnings call. Thank you.

Harsha Kadam: Let me take you through the presentation and I am on Slide #2 which talks about the agenda for today. I will talk about the industry and the economy and then move on to our performance in the second quarter as well as the half yearly performance highlights.

I will move to the Slide #3, which is talking about economy, and we are calling it the elusive double-digit growth because when we started the year, the projections for the GDP growth rate in the country was to have been in the double-digit range. As we moved into the second quarter of the calendar year and with the onset of wave two of the pandemic, we began to see some contractions happening there and as a result of which the new projections which are coming out now indicate that we would be growing in the single digit range somewhere between 8% to 10%. Now the year-on-year growth of the GDP, although it showed a 19% growth but sequentially began to contract to the tune of 18%.

Look at the index of industrial production and you will find the familiar contraction happening with respect to the month of March which is the first quarter calendar year for us. Now also what needs to be seen is the inflation rate and what you see the inflation rate standing at about 6% consistently in the second quarter while in the first quarter of the year it was averaging at about 5%. And this definitely is also having some impact on the consumer sentiments, not to mention the PPP parity also which has gone below 50, now considering the steady above 50 run that it had for the last few quarters. Similar contractions we began to see in the second quarter of the year in the coal industry sectors as well. And as you can see the year-on-year basis although it was a 17% growth, but it contracted to 16% when compared to March '21.

I will move to the next slide which is talking a little bit about the performance of the sectors, while a lot is happening from the initiatives driven by the government in the infrastructure industries. We did see a strong traction in the first quarter of the year between Jan and March, however coming into the second quarter as because of the localized lockdowns in certain states and the restrictions of movement of traffic, all this began to show some impact on the industry and production as well. As you can see here the cement industry which the year-to-date production was 30% higher which is much better as you remember the second quarter of last year 2020 same period was in a lockdown state with the entire country shutdown. Hence you will find that the performance of this year definitely looks much better.

Look at the steel production and as you know that there's a lot of consolidation happening in the steel sector and also notwithstanding the inflationary prices that are going up in the steel. And looking at the growth rate, the year-to-date production was up 44% higher than the corresponding period 2020. Similarly on the mining sector when you look at coal, while the first quarter had a strong traction of growth, well we saw shrinkage happening in the second quarter little more dramatic than the other sectors as you can see the drop has been close to almost, a level of 50% drop in the second quarter. But however, when you compare the performance with the same period last year, you'll find very little change just about a percentage point improvement this year. The good performance always has been in the power generation or electricity generation. The year-to-date production as you can see here almost 15% higher than the corresponding period of last year. Incidentally it is also seen to go down a little bit but however the Q2 performance has to better than the Q1 performance in terms of electricity generation in the country.

I will move to the next slide which is talking on the automotive sector performance. Here what you see is the real impact of wave two which is very clearly visible in the second quarter. The passenger vehicle on a quarter-on-quarter basis and when I say quarter-on-quarter, the Quarter 2 of this year to the Quarter 1 of this year contracted by 27% clearly indicating that due to the localized lockdowns and stoppage of manufacturing activity, the industry was impacted, the sector hardest impact. But on a year-to-year basis as you see has been a growth of 91% when compared to the same 6-month period of last year. The most hardest has been the commercial vehicle sector, as you can see here which has contracted by 50% over the previous quarter. Although the year-to-date performance has been, and the year-on-year growth rate has been pretty good at 71%. This was one sector which began to show promising signs of recovery but then we have had its fall now in the second quarter again.

Look at the two and three-wheeler sectors again which again was one of the sectors that was very hardest. In the second quarter the production numbers fell by almost 38% when compared to the first quarter of the year. However, the year-on-year growth rate was 60% higher than the previous year same period when we talk about what with almost 9.4 million vehicles being produced in the two-wheelers which is one of the largest mobility sector industries in India.

Talking about the agricultural tractors where it has been a dream run for the sector and even this got little bit impacted in the second quarter as you can see, when compared to the first quarter there has been a drop of almost 15%. Whereas when we look at it from a year-to-year basis you will find that this sector has grown by 95%, still sustained a strong growth service.

I would like to move on to the highlights of our performance in the second quarter as well as the 6-month period. Let me start by sharing with you, I am on Slide #7 right now. I would like to talk about the efforts we have taken to manage the wave two of the COVID-19 pandemic. As we came out of the lockdown and in the first quarter and the economy began to pick up, there was very good traction in the demand. However, the onset of the wave two slowed down the efforts once again and we had to continue with extreme precaution in our plants as we did not want the plants to be the source of the spread. So, we went back to working from office in all our locations and the plants were allowed to function but with all the stringent safety protocols in place and we are operating all our plants to the maximum extent possible.

Our approach during this wave two clearly focused on three areas and that was to prevent, to support and to motivate our employees. To prevent the spread of the pandemic, this was definitely the highest and the top most priority that we have given. And we took up proactively antigen testing on all our employees coming into the plants and the warehouses as well as we ensured the proper safety protocols even when they were commuting to their workplaces. Also, in the form of support we made sure that we made every effort to ensure that we gave the fullest support to the employees who were infected and hospitalized in all possible ways and also to keep the morale and motivation of the employees at the highest level. We ensured that we had continuous communication running. We had continuous messaging that was being done as well as virtual meetings which ensured that we kept the morale and motivation high. Amongst all this we also ensured that we fully comply with the notifications and guidelines that were issued by the authorities which obviously varied from state to state. This particular wave two, certainly posed a lot of challenges in our supply channels and operations. But I must compliment the team for their agility and resilience in managing so well the challenges that we faced. As a result of this we received a lot of recognition and appreciation from our esteemed customer as we ensure that their operations run as smooth as possible due to us.

I'm also happy to say that at the end we have been pursuing our vaccination efforts with our employees and we are proud to say that more than 75% of all employees are vaccinated. We have made considerable effort in organizing vaccination camps in all our plants and offices to ensure that people come forward and get vaccinated.

I will move to the next slide, and this is going to talk about the key message. So, it was a challenging quarter though, but we continued to manage the COVID-19 situation effectively taking care of the health and safety of our employees which was our priority. We also secured key businesses during the second quarter, both in the automotive and industrial space which is going to enable sustenance of our growth story going forward and this helped us to kind of post robust performance in spite of the strong headwinds coming both from the market due to the wave two as well as the input cost pressures that we began to face which started to emerge since the Q4 of 2020 itself. One of them obviously was the low light which is the increased steel prices which continued to grow quarter-on-quarter. That's still remains a cause and a strong headwind for us as we go forward.

So, all in all in the second quarter we were able to post a sales turnover of 1232.9 crores which was 180.9% better than the same quarter of 2020 but compared to the first quarter we were down 6.4% of this year. As a result of this good performance on the sales we also posted an EBIT in the Quarter 2 of 160.4 crores which was 6.1% lower when compared to the first quarter of '21. However, which was whopping 330.9% better than the Q2 of 2020. But as you all know the second quarter of last year was the truncated quarter with almost 40 days to 45 days of productivity stoppage across the country. As a result, with this profit after tax we were able to post 128.1 crores, and which was 8.2% lower than the first quarter of this year. But when compared to Q2 of last year it was better at 401.7%. We did have some challenges on the free cash flow in the second quarter owing to some timing issues as well as some of the inventories that have increased due to lower sales happening. However, we believe that this will get corrected and our free cash flow for the quarter was negative at 150.1 crores which was 181% lower when compared to Q1 of this year, but it was 38.6% better than Q2 of last year.

Having said that I will move to the next slide. I'm on Slide #9 now and here what you see is some of the business opportunities that we have been able to secure during the quarter, be it in the industrial space, some of them the large split, spherical roller bearings for the steel industry and we have been able to virtually manage and support our customers in assembling the large size bearings for the wind applications. As you know there have been travel restrictions and yet we managed to ensure that our customer lines did not stop. Also, we were able to address some of the requirements in the mining industry during the quarter. On the automotive side we secured some strategic wins which will enable us to sustain the traction in the auto sector and clearly our effort to continue to service and grow the gasoline engine sector more and more. And even in the tractor sector we were able to launch a new product and secure the business during the quarter. Some nominations that we have already got for the clutch release systems in the passenger vehicles, all this will ensure that we continue to sustain the growth momentum in the auto technology sector.

Talking of the automotive aftermarket; our continued momentum to launch new products continues. As you all know we did launch the Schaeffler TruPower engine lubricants which is doing very well, and we are very happy that this product has been well received in the marketplace. We are seeing tremendous response and strong order books in the last quarter as well. Having said that we have also kept our focus in launching other products, like as you can see here the universal joint that we launched recently, and we believe this is another addition to our portfolio for the automotive aftermarket. Not to mention the push type clutch assembly for the commercial vehicles as well which we have launched these products and secured orders in that direction. We will continue to leverage the Schaeffler TruPower brand and continue our range expansion strategy going forward here as well.

I will move to the next slide and I'm on Slide #10 where I'm going to talk about the revenue from operations. As you can see the second quarter, we posted a turnover of 1232.9 crores which was 6.4% lower than the first quarter wherein we posted 1316.8 crores. In spite of this small drop, I must say that our performance has been pretty good when you compare it with the drop in production with the industries. The automotive industry was down almost 25% and yet we were able to sustain the growth momentum to the best possible extent. When you look at the revenue bridge below, the second quarter of last year we have posted 438.9 crores. However, this quarter the jump to 1232.9 crores came from the various business verticals that we operated in this fashion. Automotive technologies contributed 359.2 crores to the group, automotive aftermarket 59.6 and industrial bringing in 272 crores. While our export definitely we have kept our focus clearly in line with our strategy to grow the export and the second quarter definitely we saw a strong demand in the export market, and we have been able to leverage the demand and certainly our exports have grown as you can see contributing almost 100 crores in the quarter.

So, all and all there've been a strong sales performance from us and all the markets as we are operating in and also added to that the export market has helped us to post good sales figures. And our plants are running to the full capacity so to say right now. Talking of the mix, as you know that we operate both in the mobility and the non-mobility sectors and our business split we have started to increase in the non-mobility sector as well. As you know this number used to be 20-80 and now you see it's about 78-22 and between the automotive technology then the industrial as you can see, we have a very good equal balance there. And where we have seen a strong growth in this quarter is on the exports which used to be around 10%, today it’s about 14% and automotive aftermarket is about 8%.

I will move to the next slide and Slide #11 which talks about the earning quality. I must say that in spite of the lower sales in the second quarter which was down 6% compared to the first quarter we have been able to sustain our performance on the earning quality if not we have done better, I must say. So, when you look at on EBIT margin was 13% in the first quarter and we have managed to sustain that 13% hold in spite of lower sales happening. This has been also possible because of the strong counter measures that we have put in place since last year. We have continued to sustain some of the cost reduction initiatives that we have put in. We have continued to see them staining even in this quarter as well. Not to mention our own strong operational performance which has helped to achieve and perform better in spite of the global sales. So, when you look at the bridge for the EBIT and what you see there the Q2 of 2020 or EBIT margin was negative as it was a truncated quarter and we had posted an EBIT margin of minus 15.8%. From there to get to 13% the volume increase obviously has come from margins. As you can see there and big improvement coming into 310 crores, coming from a relative increase as you can see with employee cost which was a little adverse fundamentally because of the annual payouts that we have to do and the depreciation some gains as well as other incomes that we have gained as well. Now when you look at it in the second quarter, we have been able to get from a level of (-15.8%) to (+13%), resulting in 160.4 crores of EBIT. The profit of the tax as well which was down almost 0.2% over the previous quarter from a level of 10.6 we came down to 10.4 absolute value terms. We posted a profit after tax of 128 crores compared to the 139 crores what you see in the first quarter. However, compared to the same period last year, Quarter 2 of last year it has been whopping for 101% improvement.

Moving on, I'm on Slide #12 which talks about the working capital and our CAPEX. Working capital, we did have some a setback in the second quarter with increase in working capital going up to 18% of sales which was at 15.8% of sales in the previous quarter. However, as you can see when compared to the same period last year, we have still done better than that. We definitely continue to keep our focus on the working capital management activities. On the CAPEX front as I mentioned earlier that we continued to judiciously invest in our CAPEX, in our capacity expansion. As you can see in the second quarter, we have increased our investments going up to 46 crores compared to the 43 crores in the previous quarter. This is something, our investment plans we will continue to do going forward as well. For the quarter you'll see that our CAPEX spend has been 3.7% as a percentage to the sales.

As I mentioned earlier during my first slide that our free cash flow performance definitely could have been better in the second quarter of this year. We hit a negative cash flow due to issues of working capital management. However, we strongly believe that this is something that we will recover back quickly. We had the same situation last year second quarter as well. But we recovered coming into the third quarter and we believe with 150 crores negative free cash flow in the second quarter we will come into the positives now going forward.

With that I come into Slide #13 which gives a little more details on the performance indicators. As you can see in the Q2, 2021 column, while low revenue year-on-year growth was 181% up and quarter-on-quarter was down 6.4%. We were able to post an EBITDA of 208.99 crores which was more or less closer to the Q1 of 2021 definitely significantly better when compared to Q2 of last year. Our EBITDA margin for the Q2 at 16.9% was certainly better than the first quarter in spite of lower sales as you can see compared to 16.6%. While the EBITDA margin because of our strong operational performance and very good managing of costs very well we have been able to hold the 13% in spite of certainty to sales that we had and earnings before tax swelled as you can see up to 170.7 crores and the PBT margin was at 13.8%.

Coming to the profit after tax, as you can see, we have been able to sustain it to 10 percentage point margin level in the first quarter and we expect to continue to sustain this kind of a performance going forward. What with our clear focus on customer centricity or actions on all the countermeasures that we are driving to ensure that we continue to deliver the financial performance that we promise.

I will move to the next slide; on Slide #14 and here I would like to summarize:

The performance during the quarter we continue to sustain. We tried our best to ensure the sales numbers to come in line with Q1. We also in spite of the challenge of COVID, as well as the commodity cost increases that we saw. We also see that we are able to sustain the operation performances across all the plants and our capacity utilization are up to normal levels as I'm speaking, and we will continue to keep the strong customer engagement and that we have insured with various projects that we are working with our customers and also that obviously will lead to a strong and robust order books going forward as well. We are hopeful that with the changes that we see with the vaccination rate that is accelerating up in the country, we are hopeful that the growth trajectory in spite of the COVID-19 wave two and the top of the three that is there which is on the horizon as we read in here, hopefully we will still be able to manage, and we will continue to remain as agile and closely monitor the market situation and take a cautious approach towards our growth targets.

Thank you very much. I come to the end of my presentation.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Vimal Gohil from Union Asset Management.

Vimal Gohil: I have two questions. The first one is related to margins, if you could just highlight despite increasing raw material prices you yourself highlighted if you could just give us more clarity as to what led to improvement in gross margin in this particular quarter? Have we got any price hikes by the customers, and have they already come in to the numbers this quarter? That was question number one. Related to question number one is the localization, if I see the traded goods number has been elevated in this particular quarter and we have been talking about stepping up our localization initiatives in the past few quarters. So just wanted to how should we read these two statements that at one point we are improving our localization efforts whereas our traded goods number is also increasing, so just wanted to match these two areas? Secondly, on your balance sheet the increase in inventory was that a conscious effort from your end and going forward because of the improvement in growth rate and improvement in top-line you expect the inventory to normalized going forward, would that be a right reading? And lastly, if you could just give us some updates on how are we engaging with these some of the new age two-wheeler OEMs, which are coming up very aggressively in India and what are our efforts to gain significance in that market?

Satish Patel: If I remember correctly there are four questions, let me answer at least first three of them. The first question that you pose is regarding the margin that we help actually improved in Quarter 2. We service the preceding quarter and despite the steel price hike or the commodity price hike, yes there has been improvement in the margin because of few reasons. The first reason is that we have been able to improve the mix and as you notice that the export sales has been much better this quarter compared to the domestic sales and that has helped us in terms of mix improvement that has led to the better margin level in terms of contribution in the form of gross profit. The second reason is we have been able to recover a part of the steel price increase. Yes, the steel price increase has been phenomenally high and that is impacting everyone across the industry. We have taken out this for recovery from our customers and market and we have been successful and there has been recovery as well. Though 100% of the steel prices not yet recovered in the quarter, but major portion has been recovered. So that is in a way upsetting the major portion impact of the steel price in the quarter. The third reason is that the countermeasures that we laid out last year and if you recollect in the past earnings calls, I have said that we have charted a long or the midterm plan of cost reduction since 2019 even pre-COVID era. Some of the major projects in the cost reductions like localization, like our continued focus on logistics, like our continued focus on variability in the cost, literally every cost we have brought variably the aspects, except depreciation there is no cost without variability. And that focus on the cost that we laid out already in 2019 with a different focus is helping us in terms of continuing the cost level base better in this quarter as well. So, these are the major reasons for improvement in the margin this quarter.

As regards your second question regarding the exports, yes, the exports have been better, and we have been able to actually secure more demands and also the new projects that we had actually laid out in the region particularly in region Asia-Pacific is actually paying off now in terms of the orders. And these are the projects which are going to last also in the future, so the momentum that we have gained suite continue also as well in the future. I think connected to that another question that you raise is there is an adverse mix in this quarter in terms of trading being higher than the manufacturing or we have focused on localization would this be actually sustained? So, the answer here is that this is one of yes in this quarter we have high trading and that does not mean that the localization has gone down. Yes, it is one of in this quarter and there have been certain situations going to COVID where timing difference of the deliveries, imports, this has also happened which has a carryover impact of the last quarter. But this is not going to be same in the future and our focus on localization and the level that we have achieved in localization will continue to improve. Another question that you raise is regarding the inventory increase in this quarter, this is actually the optimum level of inventory. It was actually lower in the previous quarter. In the previous quarter we had actually purchases, which certainly late in terms of inventory, correspondingly in payables so the overall working capital was not higher. But the inventory was higher, and that purchase is continued and in this quarter the level has slightly gone up, so no significant increase in inventory but yes, increase in working capital, improvement in payables. This is the level of inventory that we are seeing is the optimal level. It is unlikely to work from this level and we are expecting that our focus on continuous improvement in the working capital would remain. Though the individual components of the working capital focus would be different, because we want to have slightly better level of inventory to meet the contingencies like Corona wave two there could be other situation. Therefore, we do not want to push inventory too much. We want to ensure that we have better service levels to customers. How we ever overall working capital focus would continue and we are not expecting too much of a worsening on the working capital side.

I think you still had one more question about the two-wheelers and I would request Harsha to make it.

Harsha Kadam: If I understand your question on two-wheelers, your question was that there are new entrants coming into the two-wheelers space and what are we doing about it? So let me start by saying first, when you look at the two-wheelers, we enjoy a strong market presence in the two-wheeler market space as such even though the technology still continues to be the internal combustion engine technology. We are present strongly in the engine applications, transmission as well as we chassis applications. Having said that with the emergence of the electric two-wheelers and with the push that the government is now bringing in more focus to move towards electric vehicles and more so the electric two-wheelers with a clear goal on the climate change initiatives driving it, we definitely also are getting our act together to share with you Schaeffler globally has a strong electric vehicle technology competence already in place. In Europe we have started to manufacture as a series production electric motors for the electric cars, so that's already in our portfolio. As a result of which now we are also exploring, and valuating can we apply this competence and knowledge here in India for the two-wheelers. We are in discussions with few of the two-wheeler manufacturers already who are working on electric vehicle projects. Not to mention the transmission system which we have specifically developed here locally homegrown for the two-wheeler application as such. So, we are definitely aware of the changes that are emerging on the two-wheeler landscape, and we definitely are having clear actions to meet those challenges that we see which is going to come in terms of the technology shift that happening moderately, so we are preparing for that definitely.

Moderator: The next question is from the line of Jai Praksh from LIC Mutual Fund.

Jai Prakash: You spoke about the export bring an Asian market you have done started some projects. Can you just talk a bit more about it and what could be the trend here at least on the export side?

Harsha Kadam: One of our strategies is clearly to leverage the competence of certain product lines where the Schaeffler India is quite strong and also, we would like to leverage the cost competitiveness that exists here. As a result of that we have clearly planned an investment strategy going forward and the intention here is to start to export not just to Asia but also to the rest of the world. As a result of this strategy, we would have products that get relocated some production facilities getting relocated and also new products that would get added to the Schaeffler India portfolio. Now having said that, obviously we have started to work in the market as well and we have started to see a very good response for India made product and we have now started to open the doors to Asia, and we have seen a good response coming in from all the Asian countries in the region and we would like to continue to build on it, going forward.

Satish Patel: Just to supplement one comment in addition to what Harsha mentioned. Our range of products which used to be very limited in exports is also widening, so that opens up more opportunities in terms of exports because of the offerings that we have now of the wide range of products. Unlike in the past where we had probably 2 or 3 product lines now, we have more than 8-9 product lines, so offering the products. There are a lot of options available to our counterparts in other countries to actually initiate these orders for the exports from India.

Jai Prakash: The second question on the localization effort considering our target, how should we see the CAPEX going ahead because of what number is a right now, what we invested 85-86 crores in the first half. What could be the CAPEX number going ahead and will it be sufficient for us to reach our near-term localization targets?

Satish Patel: So, as we said in the past that we have this strategy of investing for localization for capacity as well as for rationalization and the strategy is to invest 1000 crores in 3 years and this remains intact. Quarter-on-quarter or probably year-on-year there would be some time lag of investing because of the situations during those years and quarters like we were faced with Corona pandemic situation last year and this year wave two also created some disruptions. Between the years and quarters there would be certainly some CAPEX time lag, but overall strategy of investing for growth of 1000 crores remains intact. We have already invested close to 85 crores this year. The second half investment is going to be higher than that, so this year actually our target is to invest close to 250 crores. Hope we can realize that, because the COVID wave two and this type of challenge was not envisaged when we laid out the plan of investment this year. That has caused certain disruption because a large amount of CAPEX also involves imports, and those challenges are actually there in terms of investments this year. There will be probably sometime overrun probably carry over to next year, but overall strategy remains intact as well as this year we are trying to invest as much as we have planned, we are aiming for.

Moderator: The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund.

Shyam Sundar Sriram: My first question is on the industrial segment; you did call out some new wins in terms of the actual installations during the quarter from our steel, wind and even new order wins from the mining segment. So how do we think about the quarter on quarter twice have plat performance while many in segments actually you have replaced this year production issues due to the COVID. Which segment, which sub-segments fired better for us because we are reported a number within the auto segment the industrial or within the mobility maybe the railways too that has declined only about 8.5% levels and the general industrial that we report under the other segment has actually improved Q-on-Q. So, which sub-segments fired for us if you can give some color on that and how has been the industrial aftermarket performance on a sequential basis considering the auto market declined 10% due to the shutdowns in various states for say this is on the industrial side and generally on the exports front you spoke of new products expanding the range of products per se, are we primarily in the auto-tech segments for exports? And when we talk about the export's performance is it primarily due to the end market demand or a healthy addressable geography also which we were highlighting earlier from last year onwards has that actually expanded per se. So, that is only the export front and lastly on the price vis-à-vis the volume mix, how much sequentially we would have gotten a steel price increases during the quarter per se, if you can because inflation has been quite strong for the last 2-3 quarters that is how much of the steel price increases would have taken an effect in this quarter or on a quarter-on-quarter basis? These are the three questions.

Satish Patel: Let me start by first taking the industrial part of the question. Yes, the industrial performance has been more or less same at the Q1 levels as we have seen, primarily this being the clear focus that we brought in to grow our distribution business the aftermarket industrial, aftermarket business, which clearly grew by almost 8% better performance than the previous quarter. Some of the sectors we did well are also on the railways, we did quite well when the demand was very good, and we leveraged the demand. Wind was another sector that we were able to leverage and grow the business. In terms of securing of clear focus and drive to gain more presence in the steel and mining sectors have started to behave as per and I did share during my presentation some of the winds that we have started to secure. These two have started to add to the growth story I can say. You will see a strong performance from the industrial sales, domestic was purely coming from wind, railways and some from the steel and cement sectors and distribution which is very clearly focused. These have helped us to grow the business and the other question was the exports product line are these because of the geographical reach or because of the end customer demanding, I think that was the question. To answer this question, it's a combination of both. Yes, there is a demand increased from some of the countries because our exports have grown in literally all the regions. Yes, it has grown higher in Asia-Pacific than other regions other countries and subcontinents, but it has grown across. It is also because of the bandwidth because of the geography increase and reach out particularly in Asia-Pacific. So, it's mixed bag actually. The last point question was pertaining to the steel rice. That how much is the steel price increase and how much of this is actually contributing to the price and thereby how much is the volume? Now it's very difficult to lay out the figure here. But yes, as you all know that this year the steel price has gone up significantly, it is not just double-digit right it is closer to three digits. I mean, some of the steel materials have grown in terms of price as high as 80%-90%. Of course, this requires a correction from the external measures particularly the recovery and that is on track. How much of that is very difficult to lay out in percentage because the quarter was the first quarter where this exercise has begun, in fact price as well as recovery wise possibly towards the end of the year we would have better picture. But yes, we are targeting to nullify this impact by all round efforts, external as well as internal.

Shyam Sundar Sriram: If I may ask one follow-up question from an exports sector, if we compare to the 2019 per se, what would have been the newer geography contribution to export, just to appreciate all our efforts that Schaeffler has been, Schaeffler India has been taking all along? From a new geography say from 2019 as a base. What would have been the new geography contribution to exports?

Satish Patel: Some countries in Asia Pacific like Indonesia, Malaysia including some space in China as well and USA. These are the large four countries where we have more geographical expansion in terms of the intake of orders.

Moderator: We take the next question from the line of Viraj Kacharia from Securities Investment.

Viraj Kacharia: I just have two specific questions. One is on the industrial side of the business. You talked about, wind energy and Railway is being one of the major reasons for outperformance in the division in Q2. Can you just highlight how our market share have changed in those two segments? How is the tendering activity now happening in the Railways part? And the related question there is that ex of railways and wind how would have overall business grown and market share moved? So that is one.

Harsha Kadam: Let me take wind first Viraj and wind we are seeing a strong traction and we have a good presence in the wind market space as such. We have engaged and actively with all the wind equipment manufacturers as well as the gearbox manufacturers. Having said that, we are preparing, and our investment plans are also to increase capacity exactly in that direction and we continue to add capacities to ensure that we continue to grow with the market demand. And clearly that is becoming visible as you see that as the wind demand goes up, we are able to sustain the supplies plus the localization drive for the wind products which we are bringing more and more into India rather than bring it from outside in India is also ongoing. That has helped to grow almost an improvement over the first quarter by almost close to 30% better performance in the second quarter. Coming to your next question on the Railways. Actually, if you see the activity level in the Railways has kind of stagnated a bit, fundamentally coming on the back of lot of travel restrictions. So, the new tenders have not been coming out so to say and certainly we see that our own business in the Railways as a percentage of the total is not very big. It's close to about 5% and certainly we have plans to grow our presence here as well that we want Railways to be a bigger share of the business that we do. We do have few projects in the pipeline. Some of them are under homologation and validation. As they come out surely you will hear about them, and you will see us becoming more active in the Railway sector. We have a clear intention to grow our presence in the Railway sector as well.

Viraj Kacharia: On ex-wind and rail, in steel, cement, other process industries, how would our business?

Harsha Kadam: As Satish already mentioned our expansion, capacity expansion plans are also targeting these sectors, the product lines that we want to localize where our localization percentage falls around 72%, we have targets to get it beyond that as well. So, more product lines definitely we would begin to make here in India and obviously there by we bring in more competitiveness into the products that we manufactured here and obviously this can be leveraged to gain more market share with our customers in the steel and the cement sector as such.

Viraj Kacharia: On the export side, you talked about this strategy working really well for us. Is it primarily driven by the cost competitiveness or this whole China Plus One or region diversification is also a key driver? Any perspective you can share, especially after the PLI scheme coming in? How should we see the growth profile in the business? And the third part of the question is, we had launched this OPTIME service in India and one of the larger competitors also have the similar offering. Any color you can share in terms of how is the scale up been? What are the initial learnings been? And how does it work in terms of revenue model and margins?

Satish Patel: As regards your first question about the exports, it's cost as well as competence both so for some products particularly conventional products, we do have the cost competence and that is one of the sort of basis for which we have some sort of exports leverage in terms of the overall volume and the attraction about the demand. The second is the competence. Certain product lines for example, cylindrical roller bearings, we have competence as well as critical mass and this actually also in line with our global strategy, Schaeffler’s global strategy that there has to be certain critical marks in order to gain the advantage of both cost and competence. We do have some product lines there. We are let's say one of the key suppliers to the entire global network of Schaeffler. Likewise, some other countries, plants in those countries have for some other product lines, cost and competence particularly on the competence side. It's a combination of both conventional products we have the cost advantage and on the specific product lines like cylindrical roller bearings, like large size bearings we have the competence established over the years and that helps in terms of gaining the overall export momentum.

Harsha Kadam: Coming to your question on the off time as an offering to the marketplace. We launched this product as you know in the last quarter of the last year and since then we have been marketing and promoting this product. What we have seen is a very good response, a very positive and encouraging response from our customers. We are now working on getting our supply channels in place to facilitate and ensure that the products reach our customers, and this is, I must say a big step and in the direction of digitalization offering to our customers and as such the technology that is behind it, is also a game changer here. We have something that is much better than the existing products in the market and we believe that with the kind of positive response we have seen from our customers, it's only a question of us now meeting the demand that will get created soon. Currently we are setting up entire supply channel process to start feeding the market with this product.

Viraj Kacharia: Any aspiration in terms of revenue or margins how from this particular sphere?

Harsha Kadam: I wouldn't want to share it at this point in time but rest assured that clearly this is a very important project for us to get the digitalization content into our industrial space and we will sustain this.

Moderator: The next question is from the line of Mukesh Saraf from Spark Capital.

Mukesh Saraf: In one of the comments, you had mentioned that Railways did well for you this quarter. Just trying to understand, is there any new specific breakthrough in the freight segment or it is more related to say third units for the LHB passenger segment?

Harsha Kadam: We couldn't hear your any of it because of the background noise. Can you please repeat?

Mukesh Saraf: The question was regarding Railways. You had commented that Railways has done well for you in this quarter. Just trying to understand, is it more on the freight segment if we have got some breakthrough there or is it more on the passenger LHB segment probably where the CIU units have started getting supplied?

Harsha Kadam: I must say the good traction that we have seen is on the Metros which were various projects, which we are working with, and these have actually helped us in this quarter. We expected that we would be able to get some of the projects on the LHB passenger trains as well off the ground, but we foresee some delay but nevertheless once we expect in the next quarter hopefully, we should be launching the products on the LHB as well. However, the Metro demand has really helped us in this quarter.

Mukesh Saraf: My second question is slightly broader question, not specific to some of your strategies on products etc. more on the content per vehicle trend. Last quarter you had mentioned that we had kind of reached the €40 mark and directionally we are going to be looking at it upwards. You did say that you can probably give a broad direction later so would you be able to give us a direction in terms of how content can say move this year for you?

Harsha Kadam: Yes, I stand by what I said in the last meeting as well that we are focused on increasing our content per vehicle and as you know this is a journey right and as I said in my last call that we have reached the €40 per vehicle barrier and our target is to continue to push up the number and just to share with you, our participation in the gasoline content has already gone up to 70%. Meaning when the market has moved 80% of the vehicles to gasoline, our offerings are already at 70%, which was almost around 60 a year back. We have increased our content to offer to the gasoline engines as well. Not to mention that we continue to feed the diesel market as well which is down to almost now less than around 15% to 20%, With that, we believe that our content per vehicle is also going to increase. Incidentally we have also had some good breakthroughs in the light commercial vehicle sector, which is helping us to raise the content per vehicle going forward and of course we hope in the end of this year, we will have a significant number to share with you.

Mukesh Saraf: You are not sharing any targets like maybe in the 3 years, you want to get to say particular content mark in terms of euro per car?

Harsha Kadam: Not for the moment.

Moderator: Thank you. Due to time constraints, we will have to take that as the last question. I would not like to hand the conference back to Mr. Vijay Chaudhury for closing comments.

Vijay Chaudhury: Thank you ladies and gentlemen for joining our earnings call. And now we will end the call and should you have any further questions, please reach me at vijay.chaudhury@schaeffler.com. Thank you and have a good day.

Harsha Kadam: Thank you all. Stay safe and take care.

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