"Schaeffler India Limited Q1 FY-20 Results Conference Call"

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MANAGEMENT:	**MR. HARSHA KADAM – CEO, SCHAEFFLER INDIA LIMITED** **MR. SATISH PATEL – CFO AND DIRECTOR FINANCE, SCHAEFFLER INDIA LIMITED**
MODERATOR:	**MR. VIJAY CHAUDHURY – SCHAEFFLER INDIA LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Schaeffler India Limited Results Conference Call for Quarter 1 Results for the period ended March 31st, 2020. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vijay Chaudhury from Schaeffler India. Thank you and over to you Mr. Chaudhury.

Vijay Chaudhury: Thank you. Ladies and gentlemen good morning and welcome to the results call for Schaeffler India. Today we have with us Mr. Harsha Kadam – our CEO, Schaeffler India online from Pune and Mr. Satish Patel – our CFO and Director Finance, Schaeffler India online from Vadodara. As you know the management is online from different locations, so there may be instance where they briefly consult each other and then respond. Kindly be patient if the line goes on mute for some time, will be with you. I now hand over the call over to Mr. Kadam who will take you through a short presentation on the results. Over to you Mr. Kadam.

Harsha Kadam: Thank you Vijay. Good morning ladies and gentlemen. Welcome to this investor call. In these challenging and unprecedented times that we are in, it's a great pleasure to share our performance for the first quarter. As you all know we were already living in a world of volatility and relative unpredictability. And as if that was not enough the fashionable jargon landed at our doorstep uninvited with an altogether new face call the COVID-19. Amidst this unprecedented challenge and the enormity thereon, we the Schaeffler team in India got together to respond and act now to protect and run our business today and also plan and retool to recover the business for the future. So in this period of the officially declared lockdown we've got into a mode where we had to respond to the crisis and protect the business first, ensure the business continuity and accelerate through the recovery process, moving on, look forward to retool to the new normal that is going to emerge post-COVID19 scenario. As I said earlier responding to the crisis the first thing was to take care of our employee's safety and well-being. . So I would like to take you through a brief presentation wherein I cover first on what Schaeffler did during this COVID crisis, how did we manage the crisis and how do we continue our efforts in that direction. I would like to touch upon a little bit on the economy and the market. Next I would like to take you through the first quarter 2020 performance and some information on what is the situation on our operations front, considering the lockdown situation.

So I was on slide #2 and I move to slide #3; as you can see like every organization has done we at Schaeffler, got into a crisis management mode. A crisis management team was formulated as early as the evening of 5th of March, the team was activated and we got into a total evaluation, assessment and we put in very strong protocols to measure where are we today in the crisis and what needs to be done to manage them well.. We began to implement all these safety practices of social distancing, hygiene management and to some extent started to use the protective equipments. . Also we began to bring awareness within the organization : be it our plans, our regional offices or the corporate office, we began to share a lot of information with our colleagues and employees to bring about the awareness of the magnitude of the unprecedented challenge that was unfolding to us.

To share with you; we moved to work from home from the 17th of March and I would like to reiterate here that we were very proactive in taking these measures even before the government declared a lockdown and moved into the crisis management mode. So we proactively took action, some necessary steps to ensure that our employees were safe. That was paramount to us. Secondly we got into a mode to ensure that our customer operations run well, so we took care to track our customers' requirement and we looked at our stock situations and we were preparing for what was going to come. In the process of moving to a work from home situation we also resorted to making sure that all the necessary infrastructure by way of communication and connectivity was established with each and every management staff and also with the use of social media we were able to ensure that we stayed connected with the last man in the organization. In all these we also took care that we increased our communication and engagement levels with our employees because we believe that to keep the morale and motivation of our employees high, we have to increase our level of communication, we resorted to communications by way of video messages by the leadership team, by Podcast, by communication through letters and this was internal. Even the external communications we did not stop. We continued with the external communications wherein we were informing the necessary authorities, our customers were kept well informed of what was happening in the organization plus we also continue to inform the stock exchanges and the regulatory authorities. Also in addition to this we also did our bit in terms of community care and towards the COVID cause and we supported needy organizations that came forward seeking our help. We have gone ahead to extend a helping hand in such crisis situation.

I will move on to the safety measures that we've put in; what you see on the slide is some of the safety measures and protocols that we have put in place which is pretty comprehensive in line with our Schaeffler production system. Now that we have restarted the factories and plants, we have ensured that we exercise full control regards all safety measures including that of audits on the first day conducted in the area of hazardous material, if any. Not to mention that strict implementation of social distancing, the strict hygiene management processes as well as use of personal protective equipment like face masks have been made mandatory and gloves to be used wherever required. So we had a comprehensive renew mechanism here, thorough check and we are complying with all the requirements that the authorities have asked us to maintain in this process.

I would like to now move to the next slide which talks a little bit on the economy and market; I am on slide #6 of the presentation wherein you would see that the gradual slowdown on the GDP trend in the country and the numbers what we have shown here Q4 of 2019, we were around 4.5% to 4.7% GDP. Going forward it is anybody's guess we have been hearing, seeing and reading reports which are forecasting the GDP that would get trimmed down somewhere around (-1) to (+2), it could land anywhere. So it's a question of time that the real GDP numbers would start to emerge. Amidst all these uncertainties that was there the government in its bit is trying to do its best to recover the situation, how is the market going to respond to this situation and what implications it would have on component manufacturers like us is something that we will have to experience as time moves forward. Having said this surely it has been a challenging first quarter and the second quarter appears to be much more challenging than the first quarter.

I would like to move to the next slide which talks on our performance in the first quarter. But before that let me touch a little bit on the sectoral performances; and on slide #7 which shows the trends of sectoral performances in the country. If you were to look at the industrial sector, the cement production for the first two months January and February if you look at the numbers was a pretty strong performance than the first quarter of the previous year. As you can see the trend, the line trend was also showing an upward movement which was very promising to look at. Look at the steel production, exactly the same performance and trend, it was showing much better performance in the first two months of January and February this year compared to last year. Mining has been good, super performance as we can see. The country's strength grows in the mining industry, thanks to the initiatives the government took in opening up the FDI coming into this sector. Power generation too was much better in the first two months. The month of March too started off well. But however because of the shutdown in the last 10 days of the month, you cans see the March performance was truncated and this impacted the performance of the quarter. .

I would like to now move to slide #8 which talks a little bit on the Automotive sector performance and as you can see here, this is one of the sectors that has been pretty hard hit and this was already having big challenges in the second half of last year and the course continued in this year and it went into a further worst situation as you can see. Let me start by talking about the two-wheelers which have been very badly impacted as you can see here. January and February, the first two months the industry was already 26% down and I am sure you are aware of the fact end of April the numbers are looking (-) 50% compared to same period last year. So, two-wheelers is one sector that has been hit pretty badly during this first quarter. Look at the passenger vehicles and you will see the same again, passenger vehicles continued its impact as you can see the continuous slowing down that was happening since the second half of 2019 it's spilled over in the first three months as well and as you can see it was down 19% for the first three months over the same period last year. Commercial vehicles, this is the sector that has been impacted very badly a whole of entire last year and it continues to have its challenges this year and as you can see it was almost 36% down in the first quarter of this year. Tractors; things began to improve a bit since the last quarter and as you can see it began to pick up in January and February as well, more or less it was on the same lines of the first quarter numbers of last year, 4% lower than the first quarter. But amongst the all automobile sector, the tractor sector was one that began to show a little bit of improvement.

I will now move to slide #9; I'm on the slide which talks about the first quarter highlights and low lights and so to summarize the performance of Schaeffler India, the first quarter profit margin was at kind of the same level as Q4 2019 despite the shutdown of operations since the 23rd of March due to the COVID crisis. However we were able to manage the working capital in a very good manner and this continued to be at lower level than the last year. Also we were able to drive a strong push on cash generation and we had a very strong free cash flow and our liquidity position was strong inspite of the performance loss that we encountered in the month of March. So as we are in the situation right now, the priority and focus is to make sure that we protect and run and continue the business once billings to restart, we try and reshape our business looking at how the market and the business landscape changes and we are preparing for that right now.

On the flip side due to the operational halt, so we had revenue loss happening in the month of March as well as our productivity loss from our plants because we had to start the operations from the 23rd of March. So on this backdrop I will move to the next slide, Schaeffler India for the first quarter 2020 has posted 928.5 crores of revenue from operations as against 1036 crores of the previous and that is a 10.4% lower than the previous quarter of 2019. However if you were to compare the Q1 2020 performance with respect to Q1 2019 performance we are down 21%, I would not compare that as an apple to apple comparison fundamentally because the automobile industry began to go down very badly in the second half of last year.

So with all this we are an organization where 80% of our business is focused on the mobility sector and 20% of our business is focused on the non-mobility sector which attributing to the industrial space. So absolutely due to the volatility in the market and a demand slowdown and some sectors which were continued to be affected, it was a challenging quarter. I will move to the next slide wherein I'm going to share the profit before tax and what you see here is, in spite of the challenging quarter that we had we posted a profit of Rs. 110.1 crores for the first quarter of 2020 against Rs. 124 crores in the previous quarter, that was 11.9% lower. So in nutshell despite the revenue loss we were able to manage our profitability reasonably well mainly because we took a lot of corrective actions we were then able to control and manage our overhead costs well. We have put in a robust review mechanism to see that we manage our cost and spend very prudently. We also managed our investments very prudently and ensured that we managed our working capital well. Going forward we were able to post the result that you see on this slide.

I will move to the next slide which gives a little more information on the performance highlights on the KPI and as you can see for the first quarter our revenue growth quarter-on-quarter was 10.4% lower but our EBITDA margin we ended up was 14.8%. When you look at the EBITDA margin of last year Q4 2019 we were at 14.9% and I am happy to say that we were able to sustain at the same level in spite of the truncated revenue growth that we had in the first quarter. Our EBIT margin at 10.1% which was a shade lower than the Q4 2019 as you can see it was at 10.8%. When you look at the profit before tax margin we were at 11.9% in the first quarter 2020 and the Q4 we had ended up 12%. So all in all we were able to manage our bottom line at the same level and the last quarter of 2019 in spite of the facts that our revenue came down 10.4%. So with this the profit after tax margin was 8.4% in the first quarter which is shade better than the Q4 2019 which was at 8.2%. . And the profit after tax was at the same level of last year in spite of a truncated revenue performance that we had.

I would now like to share a little bit on what impact this shutdown had on our operations. I'm on slide #15 and what you see here is we had a planned productive days of 308 days for the entire year and since the lockdown went to effect from the 23rd of March and now that we are scheduled to restart as per the lockdown from the 18th of May, we calculated and found that we will be losing out 52 days which is 17% of our productive days for the entire year. . We were successful in restarting our plants much earlier and well before the lockdowns were lifted. As you can see in the table below, the first plant we were able to start back was at the Savli plant we restarted the plant on 22nd of April and next was the Maneja plant which we started on the 25th of April and the more recently we restarted our plant in Talegaon (Pune) on the 5th of May and the last of our plant at Hosur we got the permissions to restart on the 9th of May. As you all know restart has to be done only with the permission of the authority. There is a very intensive and elaborate process which we have to go through and we are successfully qualified and I'm happy to say that all our plans are up and running albeit with only 25% to 30% of the manpower strength as permitted by the authorities currently We are now in a mode where we are carefully watching our customer demands and requirements, what constituents would our customers start to produce and what is going to be the shape of the demands from the customer and accordingly retool and adjust our plants to meet those change in demands that is going to come from the customers.

I will move to slide #16 post restart we have made sure that we put an extensive safety protocols and that is very-very strictly followed right from the stage our employees get into the bus to reach their workplaces, workplaces as you can see here the discipline of social distancing is diligently implemented and also not to mention be it in the canteen or in the rest of the plant areas we are taking care to see that we strictly comply with the safety regulations of COVID19 and this is in our effort to ensure that we do not have the case spreading in our plants or in our operations. So challenging times but I guess we are confident that we will weather this storm too and move forward. We eagerly look forward to the start back of our customers. Customers have also confirmed that most of them have started up operations, so we are eagerly looking forward to getting back to normalcy as soon as possible. With that I would like to thank you all for your attention and your valuable time that you have spent today with us.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Sandeep Tulsian from JM Financial.

Sandeep Tulsian: My first question is pertaining to the profitability that we highlighted in first quarter was much better than what the company reported in second half of last year, so if you could highlight the contours of that in two parts, one is where you mentioned the sales mix was better highlighting how the different sub-segments in Auto, industrial, aftermarket how they do versus their share in second half of last year? And second part would be on the cost rationalization front, what measures has the company taken and what percentage of those savings have already accrued in 1Q and what is likely to follow in the balance three quarters of the year?

Harsha Kadam: I see that there were two parts to the question; I would like take the first part. Let me start by talking a little on the automotive industry first; as you know there was a transition. The automotive industry was transitioning from the BS-IV to the BS-VI emission norms and as a result we were also fully gearing up to meet the challenges of the BS-VI norms and fortunately for us in the first quarter we did see some spurt in demand even for the BS-IV vehicles as surely the demand came from our customers and we quickly shifted gears to produce BS-IV that helped to augment our performance and the mix of the products as well. So we had a very good mix of the old generation products plus the new products that we were producing for BS-VI. That's on automotive front. On the industrial front, we did get some fillip in some of the sectors like raw material, mining, tractors or off-road sectors began to do well based on the backdrop of some of the government initiatives. So we saw a good sales mix happening that helped us manage our profitability well and better. Coming to the part on cost management, we had initiated already steps in terms of managing our expenses very prudently since the last quarter of last year and the effect of that we could see spilling over even in the first quarter of this year as well. And yes, substantial identification of areas where we can definitely help to improve the profitability margins were identified and we have managed to implement those actions and ensure that we continue to do so in the areas of travel expense control, in the areas of hiring we have kind of managing to control our hiring proportionately and as well as our overhead spends we were able to manage pretty well I must say and the team in the plants too were able to flex their costs very well and that has helped to post the numbers what you see. Satish you may want to add?

Satish Patel: Yes, thank you Harsha. Satish here, so just to add and supplement couple of comments from my side. Our operating margin have been better for this quarter, Quarter 1, 2020 compared to Quarter 4 as well as Half 2 of 2019, primarily because of the mix and the better cost level. When we say better mix, we are also in addition to the segments in automotive and industrial where we have better mix of sale we also have better mix of sales between manufactured and traded products. So this quarter was having relatively higher ratio of manufactured products than traded products and obviously this mix of manufacturing vis-à-vis trading also contributes the better performance. So the mix of manufactured products certainly contributed to the better performance in this quarter and in addition to that our cost flexing measures as Harsha highlighted, that we had initiated towards second half of last year. Even before COVID crisis arose we had continued those measures as initiated in 2019 , additionally , strict cost discipline that also helped improvement in the performance for this year. As far as cost rationalization for this year is concerned, we have utilized this lockdown time working on several brainstorming sessions to focus on the countermeasures and the cost flexing ideas and one of the very important is we want to move as much as possible from the fixed cost to a variable cost regime. It is clear that we cannot transfer fixed cost to entirely variable cost but at least we can focus on some variability in every fixed cost, be it employee cost, be it investment cost, be it other fixed overheads and that gives a little bit of leverage on the cost rationalization. So we have already started working on projects on the semi-variability bringing the semi-variability in the cost and that is going to help us to a certain extent in this year to do the further cost flexing. In addition to that we are focusing on investments. All noncritical investments will not be focused or will be deferred as much as we can. We will certainly focus on the critical investments and we will see that all the overheads are very consciously looked at and other areas where we have sort of focused on the cost would be continued in addition to the mix on the sales side. So those are the cost rationalization measures which we have initiated. And certain on top measures on the sales as well as the cost side as Harsha highlighted about going for a judicious hiring or hiring fees for some time also looking at the certain type of utilization of the labor more effectively because we have mix of the permanent as well as the temporary headcount in the plant and to utilize them more effectively and thereby rationalize the costs. So there have been quite many measures, I'm highlighting only some of them because of the paucity of time. But we are seriously working on that and already lined out quite many of them in our scope of the cost rationalization.

Sandeep Tulsian: Thank you so much for that detailed explanation. But your comment on postponement of non-critical investments that brings to my second question which is we had given out a runway of spending about 1000 to 1200 crores in CAPEX over 3 years period in telling about 250 to 300 crores a year, how would that number change and related question to that is you gave a very detailed slide on how the productivity days have impacted 17% of your annual production estimate. But given current activity level in the plant is at only 20% to 30%, do you think this number of 17% can go down to maybe something like 25%-30% or is it possible to make up for that loss by increasing the shifts or increasing production in the other quarters?

Satish Patel: So just to clarify, the utilization that you see on that slide 25%-30% is only for the month of May. We are resuming our operations in the month of May with a limited capacity because of the shutdown even after shutdown is fully lifted there is still restriction of utilization because of the restriction of the manpower (physical distancing) therefore for the month of May utilization would be skewed to a level of 25%-30%. This level of utilization is not going to continue from June onwards with the assumption that COVID crisis would gradually taper off. So the utilization level to normalcy level would resume from June onwards and we have as such laid out plan that we would bring the operations to three shifts working which is as such our normal working. So from June onwards we have laid out a plan that plants will be fully utilized which is the three shift working and the loss which has already happened in Quarter 2 and which is contributing to annualized loss of 17% of the working days that is something which would stay there in Quarter 2. But in Quarter 3 and Quarter 4 the plants will be utilized as normal. Coming to your question about investments that we have announced for 3 years, that plan remains unchanged. There would be shift of investments between 20 and 21 because even in 20 we are not going to defer all critical investments. The investments that we have laid out for our expansion and strategic objectives of keeping the plant and operations ready for the future, those investments are going to continue. Even we have spent also in Quarter 1 and going to continue those investments in this year also. Only the noncritical investments which can be delayed so that the performance is also protected, so striking a balance between performance and investment without compromising on our strategies of growth that is the focus that we are going to have and our announcement and the commitment of 3 years investments to the tune of approximately 1000 crores still remains unchanged, there will only be a little bit shift between this and next year.

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 aftermarket both on the auto and the industrial side, for us the aftermarket is annually around 23%-24% how was the aftermarket performance with the deterioration and aftermarket in the Quarter 4, how was that in Quarter 1 and whether that also was a lever in terms of our improvement in the gross margins that we saw this quarter? and what is the outlook there in terms of the aftermarket both on the auto and industrial given dealers are seem to be under a lot of stress at this point of time?

Harsha Kadam: So on the aftermarket if you see our performance in the last quarter Q4 of 2019, automotive aftermarket we posted a very strong performance and fundamentally the market is a cyclical market and it is towards the last quarter always the market does well which did well. Coming into this quarter Q1, yes it always starts a little low but then tends to pick up. However I would like to add here that our endeavor to expand a range of products offering in the aftermarket was very good. We took steps last year to bring in more products into the portfolio, particularly in the Clutch applications and we have been very strong in that. We are continuing to build on it and you will see that even in this year 2020 our automotive aftermarket performance we estimate is going to be very good because it is riding on the back of new product launches and we are there with the market as the market lead. On the industrial aftermarket if I go to elaborate on this although the last quarter of last year 2019 we saw good performance. The first quarter of this year was a little muted fundamentally coming on the backdrop of the liquidity crunch that was there as well as some of the government projects that were put on hold, so as a result the demand went down a bit in the industrial space of the aftermarket. We are hoping now with the new initiative that the government is trying to create the pull and the consumer demand to go up, we expect the industrial aftermarket also to start picking up.

Shyam Sundar Sriram: Any numbers you can share on the aftermarket side in terms of growth or decline (39.40)?

Harsha Kadam: All I can say is definitely we are on a growth trajectory when it comes to the automotive aftermarket because the simple logic that it goes by is if the automotive OE market is down surely people would end up getting their cars and their bikes and truck serviced more often, so the demand for the automotive aftermarket products in the automotive industry would definitely go up and we see that happening already and with a very weak sentiments on consumer spending people would hold back buying new car, so they would rather spend on their cars or repair the cars, so we see definitely there is a strong growth going forward.

Shyam Sundar Sriram: Within the auto OE or between the cars, two-wheelers, CVs and tractors, so we were expecting a content increase at least on the car side with their new product per se, are we still seeing the traction going forward or has there been any change in terms of your OE plans this year and do we expect to outperform the underlying auto market from a production perspective can we outperform that with our new product pipeline therein?

Harsha Kadam: Rightfully our focus is on improving our content per vehicle, there is no doubt about that and we have got our acts together to continue to build on it and make sure that our content per vehicle grows. However as you know the landscape in the market also keeps changing and what we have seen is compared to last year our content per vehicle actually has increased however it has not increased in the areas where we expected it will increase. There were some of the sectors where we saw that we were able to increase our content per vehicle because our products were well accepted and we have already like in the light commercial vehicle sector, we got a very strong increasing the content per vehicle. We have almost doubled our content per vehicle in the light commercial vehicles whereas when you look at the passenger cars, yes, it is increasing but it all boils down to how fast the BS-VI norm will get implemented and the acceptance of the vehicles. However all I can tell you is we are ready, we are geared up and as the vehicle start to sell more we will see our content per vehicle increase. We are on the right trajectory as of now.

Shyam Sundar Sriram: Between the chassis, engine and the transmission within the auto what would be the mix approximately if you can give some color on that?

Harsha Kadam: In our business?

Shyam Sundar Sriram: Yes.

Harsha Kadam: Satish you have the numbers with you?

Satish Patel: Yes. Let me just take that. Within automotive, engine system is about 30% and transmission is about 50% and the balance is all about chassis and other components.

Shyam Sundar Sriram: Within the industrial segment other than the aftermarket where are we seeing for some positivity and broadly what is your outlook on the industrial side?

Harsha Kadam: On the industrial sector, the year started off very well and we began to see a very good demand on the Wind, the off-road construction equipment sector was doing very well for us, the power transmission sector began to do well for us, the raw material sector began to do very well for us. So primarily the sectors related to mining industry where all your off-road vehicle construction equipments may began to do very well for us. Wind mainly because India is being used as an exports hub by all the Wind manufacturers like Siemens Gamesa, GE, Vestas, everyone is using India as a base and we have a strong presence. So that is looking very positive. The Railways sector is another one on the backdrop of the drive and initiative that the government is taking both in terms of investments and in terms of privatization, we find that there is the new energy in the Railways sector, so we see Rail going to be a very strong hope both in the Indian railways and in the metro trains.

Shyam Sundar Sriram: From exports perspective how are you looking at exports for this year? Is there any talk of a supply-chain shift happening on more sourcing from India, is that something that you are seeing at least on the auto side, how is the export market for Schaeffler India?

Satish Patel: As far as exports are concerned as we have been also talking that 10% to 15% our revenue is constituting exports. There have been plants as when I mentioned about mix for localizations and there are also certain plants across the globe within Schaeffler world and wherever we have critical mass and wherever we have competence particularly on the Cylindrical Roller Bearings, particularly on the large size bearings and certain chassis components, there would be some focus. However this would depend upon the competence that we have and how much we can leverage. I do not think that because of the conditions we are in currently this is going to change dramatically. So this is as part of the strategy and going forward yes there is a focus but because of the current conditions nothing is going to significantly change as far as exports are concerned.

Harsha Kadam: If I may add to what Satish just said, I would relate this to the previous question that was asked as well in terms of our investments. As you can see a lot of our investments is also being done to localize lot of products which we have been importing from Europe and elsewhere. Now also we did share in the previous investor call that Schaeffler India is now under the Asia Pacific region, so the manufacturing footprint here in India would play a big role in exports to the South East Asian countries, Japan, Korea, all the countries in the Asia Pacific region. So this is with a clear strategy that we have been continuing to invest and localize. In fact one of the good indicators that our Q1 performance was very good was because we were able to sell a lot of our own manufactured products from India which until last year we were continuing to import, so there is a localization drive so that we can, India can become a major exporter of the products not just to Asia Pacific region but for the entire world.

Moderator: The next question is from the line of Hitesh Goel from Kotak Securities.

Hitesh Goel: My question pertains to again exports; you talked about Schaeffler India becoming important element for the South East Asian markets. We have also seen last 4-5 years even in most of your competitors and yours also exports have grown quite well. So can you tell us something about these, is this substitution of exports coming from global entities from China to India, how is the global entities looking at India or can you also share some of the commonality of products which is coming from China to global markets and from India, so is there a theme here which can play out over next 4-5 years for Schaeffler India?

Harsha Kadam: I do not know about the China to India, China to the rest of the world. All I can see is that we at Schaeffler have a very clear strategy that the bearing plants in India could play a very important role and we have already started extensive work with our Asia Pacific region where we can increase the market presence of Schaeffler in the Asia Pacific region, particularly on the industrial side of the business and we see huge potentials here hence you will see a large part of the investment that we are making is on industrial side as well, a lot of localization that is happening is on the large size bearings which the rest of Asia Pacific is continuously been importing from Europe which now we have already drawn our plans to start shipping them from India and we are getting our acts together be it in terms of the quality of the products, be it in terms of the quality of the packaging we want to have the sales standards going forward so that the customers and the end users do not see a difference whether this comes from Europe or it comes from India. That is very clear to us.

Hitesh Goel: Any targets that you have that what can exports be as a percentage of a revenue in next 5 years? Will it outgrow the domestic market or what is the strategic 5 year focus on this business?

Satish Patel: I think it is comprehensively talked about by Harsha and also earlier by me that as far as our strategy that we have laid out for exports, focusing on critical mass, focusing on the market and focusing on the cost that would remain unchanged. In addition to that yes, there are opportunities because of the regions like Asia Pacific. We have strength in two-wheeler products, we have strength in chassis products. So those would definitely be focused for exports. However there is no per se a number that how much this would be as of now against 10 to 15 what would be that, 3 to 4 years from now. There is no such particular number but yes there is a focus and wherever we have competence that is the sort of a area of focus for exports and that is part of the strategy and we are focusing and we will continue to focus on those strategies.

Harsha Kadam: If I may add Satish, this lockdown kind of has given a very big opportunity for us to start preparing for all the new things that's going to happen. So one of the big investments that we have done is invested in a lot of training hours during this period with our employees, we have retooled them for all the new products that we will be launching, we want to bring and we want to produce from India and market to the external world. So we have leveraged this opportunity to exactly sit down and re-strategize so where should we be playing, what are our strength and how can we play to our strengths. So we have clearly done that in the last 50 days, odd days of shutdown that we have had and we have spent in a lot of man hours almost 35,000 to 40,000 man hours of training that have been done to our employees to prepare them for the new norm that is going to come and there could be new markets that will emerge and we want to be ready for that. That's exactly the direction, so we definitely want to play a strong role in the export market.

Hitesh Goel: Second question is basically related to margins. If you look at margins for Schaeffler from the peak has dropped quite a lot. Is that pertaining to only the automotive segment or because you have brought in new products where localization were lower so margins were lower. Can you shed some light on that? How should we look at margin trajectory in a normalized case? I'm not talking about FY21. Say for example normal businesses resume…

Satish Patel: In the normal life case I think if you see our 2019 margins, operating margins were close to 16%. In 2019 except the few months of Half 2 was normal year. 2018 was 17%, so 17% and 16% that was the range of margins. That level of operating margin became sustained under the normal circumstances. Definitely a difference may be between operating margins across the segments and we have both businesses, we have OE business, we have aftermarket and distribution business. Within OE business there are different technological oriented and cost oriented product lines in the segments between automotive and industrial. Within industrial also there are varied segments; you talk about Wind to Railways to two-wheelers to tractors. So definitely the margin situation is different for different segments but overall margin that we have achieved in '18 and '19 that's the normal level of margin that we can have.

Moderator: The next question is from the line of Vimal Gohil from Union Asset Management.

Vimal Gohil: I wasn't very clear about mix in this particular quarter. If you could break up your revenues between automotive-industrial and for the OEM part and both the aftermarkets as well, this quarter and how much will exports.

Satish Patel: If I answer this due to time constraint, whatever we said about the mix of the sales and our business in the last investor call that has remain unchanged. So you can still take those numbers as far as the mix is concerned. Between those segments there is no change in this quarter. So there is a fraction of a percentage probably changed between the segments, so we can spell out but it would take some time and I think in the interest of time I would suggest that you refer those mix percentages that we announced last time.

Vimal Gohil: What would be the cash on books right now?

Satish Patel: Yes , we have a strong liquidity. Our cash position is quite strong. We generated about 150 crores of liquidity I mean the free cash flow in first quarter; the cash position is close to 1000 crores.

Moderator: The next question is from the line of Priya Ranjan from Antique Stock Broking.

Priya Ranjan: Just on the industrial side if you can throw some light on you said very strong growth in Wind raw material and Railways. So if you can throw some light on what kind of growth, when you say strong, what kind of growth we have achieved and also suppose because this quarter was a transition quarter for BS-IV to BS-VI, so probably the tool revenue should have been doing better and if you can throw some light on the tooling part as well?

Harsha Kadam: Sorry I didn't get the last part of your question, if you don't mind repeating that.

Priya Ranjan: Yes, so the tools the industrial tool segment because that is catching into the automotive segments and this was a quarter for transition from BS-IV to BS-VI. So a lot of tooling business might have come in this quarter, so supposed to come in this quarter?

Harsha Kadam: One of the sectors which we have is the industrial automation as we call it and that's a sector which actually has been stagnating for a long time. Unfortunately that is one sector that is being now more than close to 60 month but it has not done well primarily because the industrial automation sector rides on the back of the automotive industry because they are the big consumers of machine tools. So our business in that sector is kind of stagnating, it has not shown any growth at all. If the market picks up surely we have a strong product portfolio offerings there and we will increase our offering there. So that's on the machine tool industry and if I have understood your first part of the question, it was to do more with which sectors are doing well and how are they doing? I did mention already about Wind, about the Rail which is doing pretty good for us and Rail, incidentally we are also going to start our exports to the rest of the world particularly to the US market as well. So we are getting ready for that. We see lot of players of global players for the Wind coming into India and setting shops here to use India as a base and we are there with every Wind equipment manufacturer. So rightfully that sector going to grow, if not domestic consumption surely exports will grow and we are there, we are going to ride the rail on Wind. There is no doubt about that.

Priya Ranjan: So, when do you see, I guess the ZF is actually the customer in that segment. So how they are placed in terms of their own utilization level in terms of Wind? So we have been seeing this growth since last 1 year odd, even more than a year now. So do you think when can we achieve the peak level of volume from that side and based on their capacity utilization etc.?

Harsha Kadam: As you all know this is a very unprecedented challenge that we are going through. So having said that and this is the first time that we have come across this kind of a situation. So for me to fix a number and say oh this is exactly what is going to happen I think would be unfair; so it is best that we wait, watch and every customer would try to evolve, everyone is trying to see how to manage the current situation and I think as Schaeffler team our primary responsibility is to watch what our customers are doing and be agile and adaptive enough to meet the changing customer needs. So the key focus area for us this is adaptability and agility. These two would be driving the entire team to say let's watch and let's adapt to the situation and be agile to adapt to this situation. That would be my answer.

Priya Ranjan: In terms of Railway how do you see this lockdown? Do you see some kind of a slowdown in the investment side on the Railway or do you see the strong traction which we have been witnessing for last 1 year to continue? Although the segment is very still small for you guys.

Harsha Kadam: If you look at Railways, the government is very focused on improving the railway network in India. It's not just in extending the coverage, in terms of number of kilometers per square kilometer but they are also looking at three primary areas and that is to address the safety, to address the performance and reliability and last the comfort and convenience. These are the three broad areas the Railway is focused on and rightfully we are geared up. We do have products in at least two of these, definitely in terms of safety and in terms of product performance and reliability of the trains. We are going to play a big role. Having said that when you look at the Railways, they are also railways for the first time have started to privatize some of the sectors. I'm sure you must have read about Delhi-Meerut sector being going to be privatized and handed over to a private multinational to run and manage the train. Similarly a few more sectors been opening up, also the dedicated freight corridors with the Government of India is driving now is definitely going to help, boost the freight carriage by train is more economical than by road. So there is going to be a lot of impetus in development that's going to happen on the Railways sector which will continue to grow and we are gearing up for that, we have in fact a lot of investments that Satish pointed out is also going to be in the Railways sector by going forward.

Priya Ranjan: And lastly on the cost front, if you can classify your; the employee cost and the other expenses, line item what and we think of variability of that and what kind of fixed in nature, broadly I am not saying exactly but broadly what?

Satish Patel: Except investment which is reflected as depreciation cost except this cost, all other costs have certain element of variability and good that we have actually as part of our cost flexing measures over the years, ensured that we roll out projects such that we are able to manage cost well and flex cost well whenever called for. So even during growth times also we have worked on such projects and continue to work on such projects. We had rolled out and have successfully achieved the results also last year for example. So except depreciation everything else has certain element of variability including the employee cost. So we have certain type of benefits, for example if you produce more you earn more, if you produce less you earn less and there is some production incentive which is variable. So likewise there will be variability in employee cost also, there will be variable pay for indirect employee based on performance which we have also quite well elaborated and announced in the annual report as well. So within employee cost also there is variability. In all other expenses also variability; last 2 years we have rolled out projects on logistic side to move from fixed logistic centers to logistic centers which are having some variability so if you utilize your logistic center let's say 20% less you save some cost and not entirely contributed by fixed cost.

Priya Ranjan: Lastly on the first part, at the time of merger we have announced some EBITDA for the consolidation in terms of operation and the cost control measures etc., so are we through with all those efforts what we have announced at that point of time of?

Satish Patel: Right I think this question was also raised during the last call and we had confirmed that on the cost side we have realized nearly all the projects that we have rolled out; which are part of the synergy projects of a merger. So we have realized the cost benefits as part of synergies. On the sales side yes, there are couple of projects which would still take some time, for example on the distribution side and couple of projects in automotive side, the plan was to complete that by '21 and those projects are in progress but on the cost side large amount of the projects have been implemented and realized as part of synergies.

Moderator: The next question is from the line of Laxmi Narayan from ICICI Mutual Fund.

Laxmi Narayan: I guess cars as a part of your revenue is around one-third and there is couple of quarters back you mentioned the possible loss in business is because of dieselization of engines, sorry less of diesel cars being produced and we being the large supplier to largest manufacturer of cars in India. So if you can just throw light on this because there has been a significant drop in the diesel cars production. So how are you substituting the loss in revenue if at all for the car segment?

Harsha Kadam: Yes, I guess similar question was asked in the last investor call as well and at that time I had replied that we are fully aware of the fact that there is a technology shift that's happening from diesel to petrol engines is primarily because of the shift from the BS-IV to BS-VI emission norms. Having said that I had also shared that we have product portfolios in the petrol domain which we began to increase a range of product offerings in the petrol portfolio, so we clearly are working with the largest OEM manufacturers already and be it the engine application or even the transmission applications, both the applications which do contribute to the BS-VI norms we are fully engaged and that is one of the reasons I did mention to one of the questions earlier in the call today that our content per vehicle which we have clear strategy to continue to increase, see we are prepared for that, we have our actions, the products are there, if the market picks up yes, you are going to see the gain in the market share as well. We will have a much larger market offering when it comes to the engine application and the transmission applications.

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

Vijay Chaudhury: Thank you ladies and gentlemen for your participation. We extended the call by 10 minutes because we started a few minutes late. We will now close the call as the Management has some other engagement.

Harsha Kadam: Vijay I just wanted to say a word. I wish all of you to stay safe and healthy. Please take care of your loved ones because these are unprecedented times as I said, so it's important that each one of you take care of yourself. Stay safe.

Vijay Chaudhury: Thank you and with that if you have any further questions please do reach out to us on an email. You can drop me an email on vijay.chaudhury@schaeffler.com. Thank you and have a good day. Stay safe.

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.