"Schaeffler India Limited Q3 & 9 Months Results Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Schaeffler India Limited Results Conference Call for quarter-3 and 9 Month Results for the period ended September 30th, 2021, CY21. 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, welcome to the results call for Schaeffler India. Today we have with us, Mr. Harsha Kadam - CEO, Schaeffler India and Mr. Satish Patel - Director, 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 ladies and gentlemen and a very warm welcome to this investor call of third quarter or the 9 months and I have Satish Patel here, our CFO.

Satish Patel: Hello, everyone, good morning and welcome.

Harsha Kadam: So, without further ado, I would like to take you through the presentation. I hope you have it on your screens by now. I will move into the second slide of the presentation which talks about the agenda and I would be touching upon 3 specific areas, the industry and the economy. Then I would take you through the third quarter results and the performance of Schaeffler India and along with the highlights and then I would take you through the third part of my presentation which would be the value creation for our shareholders and what Schaeffler India doing in this area.

Having said that, I move to the next slide which is slide number 3 which is the economy and as you all have been seeing the strong rebound in the economy post the wave 2, in the third quarter, we saw significant traction from almost all the sectors of the industry barring one or two and what we see is the strong performance on the country's economy in terms of the GDP growth which in the third quarter was projected to be at around 7-7.5%. Also, good to mention would be the softening of the consumer food price index and the inflation levels that have been managed at a reasonably good level of below 5% of sale. The index of industrial production too has registered a very strong growth compared to the first quarter or the last quarter of the last year and with this strong indicators that the economy was beginning to come back.

Look at the coal industry sectors, they too have performed pretty well and they have registered 19.3% compared to a degrowth that was there at 17.3%, same period last year. Now what the main cause behind this is the very positive consumer confidence and sentiments in the Indian economy today. To validate that I have put across small chart there which talks about a survey conducted by the conference board which happens to be the global consumer confident survey and which is indexed and as you can see, the index starts with 60 to going up to 169 and India tops the list at 169 and this report is as fresh as last week. So, this kind of reinforces that we consume a sentiment is still quite strong, the confidence is quite strong in spite of some of the headwinds that we still see coming our way.

I move to the next slide, slide number 4 where I talked about the core sector performance and as you can see on the bar graphs that have been shown on the slide the cement production in the country too have been at a much higher average than last year same period comparison. Look at the steel production which contributes almost 17.9% to the core sector performance that steel production too has performed pretty well when compared to last year's performance. One of the sectors which actually was expected to create some challenges, the coal production in the country, it is marginally better than last year, but certainly it is not at the level of the first quarter of this year performance as you see. The very positive is coming from the energy production in the country and when you look at the electricity generation in terms of that you will find that the last quarter, third quarter of the year has been a phenomenal performance which contributes to almost 20% to the core sector performance. So, all in all, the industrial sectors have shown a very positive development post the drop in wave 2 that we all went through.

I move to the next slide which is slide number 5 and here we are talking about the automotive sectors and the production numbers and this is where things begin to happen a bit as you can see the two-wheeler was coming back on track, trying to recover gain traction, but however, they were still not at the level of last year's performance when you look at the quarter 3 production number where the average was well about 2 million vehicle in a month and this year this quarter has been below 2 million vehicles a month. Look at the passenger vehicles, there was a strong traction in the second quarter of this year where the production numbers almost hit more than 300,000 when compared to last year which was a very truncated year for the automotive industry, but things begin to happen here due to the oncoming semi-conductor chip shortage, we see from the month of July slowing of production and as you can see the production numbers have dropped by the month of September, hardly 200,000 vehicles have been produced in the country.

Look at the commercial vehicles, it is still climbing gradually, but again it is not at the level of where it was in the third and the fourth quarter of last year. However, the optimism still prevails that these numbers in commercial vehicle production should go up. Agricultural tractors which had a dream run, has been one of the strong performers even this year and it continues to me, however, we have seen some softening in the last couple of months in the third quarter. So, all in all, the two-wheeler and the commercial vehicles have grown at an average production rate about 11% over last year, the passenger vehicles and the tractors, if I were to take the 9-month average that has grown by almost 30% to 35% than last year. Obviously, some of the enablers with the government announcing the PLI scheme, the most domestic manufacturing and attract large investments that is expected to come in, hopefully things will turn for the better in the subsequent quarters.

I move to slide number 6 and now I am going to take you through the Schaeffler India performance in the third quarter. I move onto slide 7 and key highlight was we had a record revenue and profitability growth in the third quarter, a very strong performance across almost all the segments of the industry that we claim. That has been one of the hallmarks of the third quarter performance, also consistently strong sustained performance for four quarters in a row, I am staying ahead of the market and outperforming the market. Also, we have been successful in gaining some significant business wins in both in the automotive and the industrial space to consolidate our leadership position. However, we did have significant challenges in terms of input costs by way of the steel price increases which we are working on it to manage not to mention the chip shortage which is now beginning to impact the Indian auto industry and we are seeing some slowdowns there in terms of the demand as well.

Another factor which has been consistently the pain area is the supply chain challenges in terms of freight and logistics as well. So, with all this, how did we perform, when you look at the sales in the third quarter, we ended the quarter with Rs. 14,876 million which was 32.7 over the third quarter of last year and 20.7% better over the previous quarter of this year. What did this result into in terms of the EBIT as you can see we were able to deliver Rs. 2216 million of EBIT and which was clearly 56.5% better performance over the Q3 of last year and 38.2% better than the Q2 of 2021. The profit after tax stood at Rs. 1708 million and which was clearly a 50.5% better than the third quarter of last year and 33.3% better than the Q2 of this year. Free cash flow last year was a truncated year in the second quarter and as we came into the third quarter, with that we have been able to deliver a stronger free cash flow with Rs. 1089 million which was considerably lower when compared to the last quarter of last year, however, it is 172% better than the previous quarter as this was the timing issue here that we see.

I move to the next slide where some of the key businesses that we won in the quarter and I would like to start with the automotive technologies, clearly our focus on adjusting the environment, the carbon emission and our goal towards carbon neutrality which I will come to in the next few slides, laying emphasis that our products also should contribute positively toward the environment. We have been able to gain successes in this direction by way of the Rocker arm and the Hydraulic Dampers or for the Wheel Bearings that we have gained for the passenger vehicle segment, also the clutch applications that we have gained in the commercial as well as the passenger vehicle, the dual clutch transmission system. Even in the aftermarket space, our continued effort to continuously add new products to our portfolio continues and we have been able to bring in the universal joint crop as a new product to the market apart from the Schaeffler TruPower oil that was already launched. We have now brought in lithium complex grease as another product by expanding the portfolio, not to mention the antifreeze coolants that go into automotive applications as well. This is something that we will continue to add more product lines in the automotive aftermarket.

Coming to the industrial space, clearly our focus has been how do we improve the speed of delivery and to that effect, our localization effort is consistently doing well and one hallmark is the launch of the linear guide products from India as we have begun to customize and manufacture them in India to specific customer needs with the shortest possible time. Now, apart from that, of course, we do have backed some orders from the tractor segments in terms of Tapered roller unified solutions as well as some high speed performance bearings that go into the transmission application.

I move to slide number 9 and this is the snapshot of the performance both for the quarter and for the 9-month period for Q3 in terms of total revenue is one of the strongest performance in the third quarter at Rs. 14,876 million as you can see which is clearly 32.7% better than the previous quarter and it is consistently for the last 3 quarters we have outperformed the same period comparison for last year as well. So, the split of this improved performance coming by way of growth in almost all the business verticals as the graph below depicts. The revenue bridge clearly shows that we have done pretty well in the automotive technology, the automotive aftermarket. There are industrial space as well as even our export business we have done marginally better and when compared to Q3 of 2020 last year. If one were to compare the Q3 21 versus Q2 21, how we performed automotive technologies grew by 15.6%, automotive aftermarket grew by 50.1%, industrial aftermarket by 26.7% and exports was more or less at the same level which is just about 2% growth. Over a 9-month period, this translates to automotive technologies growing by 74.7%, automotive aftermarket growing by 58%, the industrial growing by about 49% and exports growing by 76%. So, all in all, the balanced portfolio has helped us to sustain the growth momentum and managed the challenges that we faced during the quarter and all the plans are loaded normal capacity levels and began doing well. So, with the changes that we have seen during the last months of August and September in the automotive space are percentage of the business, the mix has got shifted a bit, so automotive technologies is around 38% of our total business whereas industrial is about 41% as industrial sectors have been performing strongly. This automotive aftermarket garners about 10% of the total sales mix and the exports would be around 11%.

With that I move to the next slide, so what has that done to our quality of earnings and what you see is the EBIT development and as you can see there has been a strong quarter in Q3 for us and we have delivered 14.9% EBIT margin, translating into Rs. 2216 million of profitability to the organization. So, how did this profit come about, when compared to Q3 of last year where we at the same quarter the EBIT that we delivered was 12.6%. You can see from a level of 12.6, we have been able to deliver 12.9%, a large part of it came from the volume gains from the market, the sales revenue that we have generated. Of course, we did have some cost increases that has happened along the way, but nevertheless it has been a strong performance on the EBIT delivery. So, the record profit after tax margins as you can see at 11.5% and the same period last quarter was at 10.1% and we have been able to deliver a profit after tax of Rs. 1708 million which is a clear year-on-year growth of 50.5% in terms of the profit after tax.

I move to the next slide which is slide number 11 where we talk a little bit about the working capital and the free cash flow, yes, the working capital as you can see has gone up in third quarter, some of it is intended, some of it is the slowdown that we are seeing in the industry. Both have contributed it and our current working capital in the quarter stood at 19.3% to sales which definitely when you look at the 6-month period which used to be, last year used to be at 24% for that matter even the 9-month period of last year which used to be at 24%. We are at a lower level with increased sales, but comparatively here some work needs to be done. Our investments and the CAPEX is on schedule and online will continue to invest our consistency in this area and as you can see the numbers below we have held at about 3.5% investment to sales consistently quarter after quarter. Look at the free cash flow, the quarter 2 obviously was negative cash flow for us as we went through the wave 2 of the pandemic, but coming into quarter 3, we bounced back and we have been able to deliver Rs. 1089 million of free cash into the system in the third quarter alone.

I move to the next slide and this talk about the performance indicators talking about for the 9-month period as well as you can see the revenue growth year-on-year for the 9-month period has been 63.2% and the EBITDA margin stood at 17.3%. For the quarter alone, the EBITDA margin was 18.2% and the EBIT margin which I have already talked about for the third quarter has been 14.9% which has been a strong performance and at 9-month period, we stand at 13.7% of the EBIT margin and the profit after tax as you can see at probably Rs. 708 million for the quarter delivering a PAT margin of 11.5% and for the 9-month period, the profit after tax margin of 10.9% is a very reasonably good performance. So, clearly the focus that we kept on our customers working with them, engaging with them and our consistent focus to drive the innovation projects to closure and being very agile to the market needs and the counter measures that we had put in place very strongly to manage our costs both into our operations, in our plants and across the value chain has enabled us to post a very strong performance.

I move to the next slide, slide number 13 and now getting to the next chapter which we call it the value creation for shareholders. We believe that we have shared because we have to deliver value to the shareholders and let me start by saying how do we do that by first ensuring that we take care of our employees. So, we have put in all the necessary safety protocols that is required to ensure that we managed the pandemic much better than the way it is being done across the country and one heartening factor is I must say that 82% of our employees have already completed the second dose of vaccination across the organization. And we still continue to follow strictly the government protocols and regulations and we still continue to operate partial work from home and we still continue to drive the vaccination camps, so as to get to the 100% vaccination as soon as possible. Effective encouragement to all the staff keeping the morale and motivation high is some of the things that we have been persistently doing, so that we ensured that our employees are safe, so that we stay motivated to deliver the results that we want to achieve.

I move to the next slide and this is where I would like to come to announcement, the Board of Directors yesterday has approved the subdivision of equity and as a result, we are happy to share that we have announced 5-for-1 stock split which at a face value of Rs. 2 is subject to now the approval of the shareholders. The 5-for-1 stock split will feel the existing shareholders issue with 5 new shares in place of 1 which they currently own and the whole thought process and the belief is that we must encourage wider participation of the investing community and also to improve the liquidity of the equity shares in the market that is available to date.

Having said that I would like to also take you to another announcement on MetLife and that is our dividend payout which is again in the direction of creating shareholder value and I am happy to share here that target dividend payout ratio, now we have set to 30% to 50% as you can see from the bar graph which was at about 30% to 40% and we have now raised it and this has been approved by the Board of Directors in yesterday's board meeting. So, the dividend payout we announced in the company would be applicable to the regular rules and regulations that currently prevails at that time. Also, this progressive dividend policy is clearly intending to raise and sustain our raise the dividend each year in conjunction with the financial performance and the free cash flow generation each year.

I would like to move onto some more interesting subjects and I am happy to say and proud to say that Schaeffler globally has proclaimed and announced that we would be a climate neutral company by the year 2040. Now, what do I mean by that is that both the scope 1 and scope 2 wherein all our manufacturing plants and the products will contribute positively towards the environment and thereby becoming neutral by the year 2030 and between 2030 and the year 2040, our target is to get all upstream stakeholders as well into the scope and thereby ensure that we become completely climate neutral by the year 2040. Having said that the task is now well cut out for us and we in India we were of the firm belief that we will be embracing the ESG approach going forward which I come into the next slide and I am very proud and happy to say that we are embarking on this journey of ESG which primarily talks about our effort, our endeavor in addressing the environment, in addressing the social capital and in addressing the governance as an organization as well. We are now bringing in a structure here clearly and identifying areas where we certainly want to work on as we believe it is much as the profits that we deliver is what is important is how do we deliver those profits and that is going to be the focus going forward on this journey and as you can see, we believe that our target is to get to a carbon neutrality or water neutrality level soon as well as to ensure that we stay focused on developing the human capital both within the organization and outside the organization and the community that we operate in. Not to mention, of course we will continue to keep our position of leadership in the area of governance and we would be putting in very strong risk management and robust processes there to handle the unforeseen and the volatility, the risks that come our way due to them as well as we will be strengthening our processes and systems as we move forward.

I move to the next slide and would like to touch a little bit upon the electric mobility or the future mobility focus that we are now increasing here in India as well. As you can see the two graphs that are put up there, the one on the top clearly depicts the development of the technologies in the automotive space as the years unfold and by the year 2030, the global adoption of electric vehicle as you can see is close to 30%. However, in India, we see a slightly different picture and what you see here by the year 2030 is that only roughly about 7% of the population, 10% of the population would be embracing the electric vehicle technology. There is definitely a lag in India, but that does not mean India will not catch up what with all the government initiatives that are now underway to propel or accelerate the adoption of electric vehicles, be it the PLI scheme that the government recently launched or the rejuvenation of the frame 2 that the government did last month. So, having said that we have clearly started to work on projects identifying areas where we can bring in value for solutions and products to our customers, be it at the component level or at the mechanical systems level or even as mechatronic and electrical systems level. So, clearly this we will do either by collaborating with our counterparts in Germany or even engaging with external agencies to work with them as well and we will still focused on and also identifying the benefits and the advantages that come out of this which is going to help the organization collectively.

Having said that I come to the next slide where this is an announcement that we have now changed the address of our registered office and our registered office officially has now moved from the Mumbai Nariman Point to the Baner Corporate Office situated in Pune. So, clearly we have two floors of office space here in Pune and we are now located very close to the Pune city as well as to the Mumbai Highway which gives us easier access to Mumbai and this has been clearly a strategic direction that we had set out to achieve couple of years back and having said that we have moved into one of the best office spaces that is available to us in Pune and this is another announcement that I wish to make today.

I move to my last slide which is more on the conclusion and outlook, how do we see the quarter ahead. Well, we believe that there is a consistent growth momentum in the last few quarters, four quarters in a row and we have been able to leverage that in a much very agile and resilient manner which had post record revenues as well as profitability growths particularly in the third quarter which has been one of our strongest quarter in terms of performance. Also, we must say that we have had some corporate actions announced today and yesterday as you can see this is clearly targeted to increase our value creation for our esteemed shareholders. However, we do see some headwinds on the horizon by way of the chip shortages which is beginning to affect the automotive sector of the industry, but we will continue to monitor those external headwinds and also get our act together. So, all in all, we stay focused on value creation to our shareholders and we will consistently work towards delivering strong performance quarter over quarter and this is my conclusion. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Viraj Kacharia from Securities Investment Managers. Please go ahead.

Viraj Kacharia: I just have three questions, first is, if you can just kind of give an indication in the sense of in the presentation and also in the opening remark, you talked about market share gains in different segment, so can you kind of dwell a little deeper in terms of what is our market share across the different segments, say in automotive bearings and even on the industrial side, what is our share and where are we seeing the growth accruing to us? Second is on the CAPEX intensity, so given the kind of demand which we are seeing across segments, is there any rethink on the CAPEX program which we had earlier outlined? And the third part is on the export side which has been really subdued this time around so if you can just provide some color on what is happening there?

Harsha Kadam: Let me clarify that. I did not mention market share in any of my presentation. I talked more about the growth in the market as well as our performance with respect to industrial growth. So, talking about market share as you know that we continue to measure our performance in terms of the content for vehicle and I must say that we are consistently improving our content per share. The last investor call, I did share that we are in the range of 40 Euros per vehicle and we continue to build on it, in fact we have gained some more traction there in the light commercial vehicle segment as well, so more is being done there now. That is on a positive track and we are clearly online to the target that we have set.

Satish Patel: Second question was about the CAPEX. As you know, we have already spent about 140 crores this year on CAPEX and we are on the verge of closer to 200 crores spend on CAPEX this year. As we have already announced in the last or the previous earnings call that we would spend about 1000 crores in 3 years on CAPEX, we stay with that commitment and we are actually looking to the growth opportunities including certain aspects of the business in terms of the localization, in terms of the better mix, in terms of the export opportunities, in terms of the various other factors including the rationalization and the capacity expansion. We are still hopeful that we would be able to actually keep this commitment of 1000 crores in 3 years. We have spent lesser amount last year, we are expecting more this year and even more in the next 2 years. Our plant setup at Talegaon is sort of a new plant which is now getting fielding. There are certain short-term hiccups because of the external challenges like on account of the chip shortages, but discounting that we still have the opportunities in automotive business. Our industrial business is growing quite well and we are expecting growth momentum to continue thereby fulfilling and optimizing the capacities that we have at our Vadodara, Maneja plant as well as the new plant in Vadodara which is Savli plant. As we talked to you, we are already expanding the Savli plant setting up the new second plant at Savli location and this plant also would be ready in a span of another 9 months to 1 year. So, yes, CAPEX, we are on track and we would keep our focus on and we are hopeful of spending on the backdrop of the possible growth in the market. You had the third question regarding exports. So, the question is about subdued in this quarter, however, I would say the growth in the export was already quite good last couple of quarters. We have actually maintained that, so this quarter performance of export so when you look at the previous quarter itself it was quite high and when you look at the 9 months, the export growth is definitely phenomenal. The export growth story continues and there are opportunities as we have highlighted, we have been exporting across the globe, be it Europe, be it South America, be it Asia Pacific including China, so we have actually opportunities of exports in all our regions and we have been doing quite well. This quarter when you relatively compare with the previous quarter, the growth is not significant because the previous quarter itself was quite well in terms of exports.

Harsha Kadam: If I may add that the situation of the pandemic in the Asia Pacific region, the rest of the country has actually deteriorated a little bit, that too is becoming a challenge because the demand has softened a bit there, but I guess that will bounce back once we recover the situation.

Satish Patel: It is more softer and likely to…

Viraj Kacharia: On the industrial side, can you kind of dwell a little deeper into the different segments, what kind of growth we are seeing, both in terms of the market and for us, so any indication you can give further in terms of drivers of how has the trend been across different segment and our position?

Harsha Kadam: If we look at all the sectors specifically and what we see is that it is barring railways as a sector, in the quarter, all the other sectors, the growth has been quite good. Railways for one reason that there is still a lot of inertia in the sector, the tendering processes have not been opened up as much as we wanted to, so these are some of the difference that have slowed down the business or the demand in the railways but otherwise a very strong performance in the wind. We have seen some strong traction in the wind sector or in the industrial automation and the machinery, machine tool sector we have seen a very strong traction as well as the off-road sector continues to be strong. We have also seen the transmission part of the business, the power transmission, industrial side, very strong, so raw material sector has been doing very well as well. Look at the automotive sectors except for some of the specific sectors like the passenger vehicles which began to slow down because of chip. Even there, the sectors which do not use chips, they continue to do well. Tractors have done very well as well.

Moderator: Thank you. We will take the next question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Just to go back to the exports point, like you said you have maintained good level of exports sequentially, just trying to understand how does exports usually play out over the next 2-3 years and is it going to be like once a year you will see steady jump and then stabilize at that level as you add new product lines or is it going to be like a gradual steady increase year over year, just trying to understand because you had last time mentioned 8 to 9 product lines, you have already added in export market, so how is that pipeline expected to play out for next 3 years?

Satish Patel: Let me answer this and probably Harsha would also supplement with some additional comments, yes, you rightly mentioned that last time we had said that there are certain product lines where we have competence and thereby we have also sort of achieved higher exports and able to actually leverage the competence that we have and thereby avail the benefits of the competence and enrich the high level of exports. Those are the cylindrical roller bearings or roller bearings and that stage and that we have actually grown year-on-year and that grows in line with the market, so as the opportunities and the export markets in other countries grow, we are in a reasonable amount getting more orders and we are able to grow in those roller bearing segment. As far as the new opportunities are concerned for the new products line that we had highlighted last time, those opportunities are newer and they are going to grow faster in the future, some of them are ball bearing, some of them are our products in automotive to a smaller extent, but business in automotive also contributing and there are some opportunities on the clutch side as well. So, those product lines, though largely on the bearing front, but there are some opportunities also in the automotive space, limited opportunities, but those are also growing and one part is the product line, the second part is the reach of the market where we are able to, let us say, increase the footprint in Asia Pacific in addition to the strong footprint that we already had in America and the Europe region. So, those are the incomes. Harsha, you like to add.

Harsha Kadam: We have a clear plan and part of the investment is really targeted towards creating and producing products for the export market. That is clearly in our strategy and we will build on this. This is not just exporting to the Asia Pacific region, but it is going to be globally exported across. As Satish already mentioned, some of the product lines, they will only be manufactured in India as well in line with our strategy and just verified that we had mentioned about opportunities **(Inaudible) 41.21** opportunities in large size bearings, axial tapered roller bearings, CRB continues to grow and **(Inaudible) 41.29** bearings. Those are the product line whereas the focus we bear. That focus continues and there are opportunities certainly in their product lines.

Moderator: We will move to our next question that is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

Shyam Sundar Sriram: Sir, on the industrial side, we have seen a very strong momentum from you as well as from the other peers here, you have talked about the segments which are driving this, I just want to understand is there market share gain per se in the industrial segment either because of entering any adjacencies there or is there any shift from the lower price imported bearings we organized high quality bearings from the life of Schaeffler per se if you can share any comments on nature of these that will be very helpful for us?

Harsha Kadam: Well, to answer to your question, I would like to say that yes, some businesses that were being imported by our customers, now they have started to source locally and we have been very agile enough to catch up those businesses as well clearly. Now, whether we want to call that as a gain in market share, mathematically yes it is, it does come down to that, but all I would say is that our concerted efforts identifying new customers and new business opportunities continues even now and that has paid off well in the last quarter as well. So, having said that as I did share this to industrial distribution part of the business which is our aftermarket business, we were again, yes again we have done exceedingly well in the third quarter. This is because of the clear focus and the concerted effort and the drive and also planning the logistics and availability of the products to serve the customers, so there have been multiple actions that we brought into place to ensure that we try and secure more business. Now, as it resulted in market share gain, I think it is too early to tell, we will need more time to evaluate that.

Shyam Sundar Sriram: Sir, the second question is on the electric division that we have highlighted and as such the parent wants to capture, now the relative question along with the CAPEX point, we also guided for

1000 crores CAPEX from CY21 to 23 indicating there is one back-ended 800 crores CAPEX for CY22-23, now what I am trying to understand sir, under the government initiative PLI scheme, specifically directed towards the EV part, is there any plan for Schaeffler India to manufacture the EV part and export to the global parent for their requirement? That is first point, second is, you have some other broad areas that the plant in that region is more focused on the industrial part localization, what are some broad areas, for example, this year we are investing in Savli for the industrial expansion per se, similarly what are some broad areas that we want to invest in the India in the next 2 years and your comment for participation under the PLI scheme?

Satish Patel: Let me just comment about the PLI scheme, I think it is a very good question. Shyam Sundar, you would know that as far as auto component or auto ancillary industry is concerned, PLI is made applicable for them and the eligibilities for certain components for the new technologies as well as the technologies which are advanced. So, that means the eligibility is for the advanced and technology components that we are already providing plus the new e-mobility solutions unlike the PLI eligibility for OEMS which is entirely for e-mobility, so that is the difference as far as the auto components are concerned. So, in terms of leverage from PLI is quite wider and also that we can focus more on our existing technologies and offer the advanced products, solutions to the customers, we are still awaiting the list of their products opportunity, once the list is announced we would be able to exactly lay out as to what sort of existing technologies and the product that we are already supplying are eligible for. So, that would be our focus to actually have, let us say, restrategize in terms of what we have to do with regard to our focus for the business with regard to this technology. As far as the e-mobility is concerned, yes, there are opportunities and our focus for the future mobility in line with the global sort of the plant of the e-mobility that Harsha sharing is light and accordingly India, that actually remains valid. It is most unlikely that it is going to be too much advanced just because of PLI because there is also a time lag to develop and participate for the e-mobility. That is the time it requires. Fortunately, PLI scheme is also 5 years, so there is a time lag for both the sort of technological development as well as PLI and PLI schemes also actually authorities do tweak and do actually revise depending on the actual situations and the development of the market. So, this may arise in addition to that next 2 to 3 years, major, let us say, change is going to happen if most unlikely, I think that would take time also for the automotive. There are opportunities in two-wheelers and three-wheeler segment, we are focusing on, Harsha highlighted that in that slide as well. So, these are the sort of focused areas and certainly PLI would actually make us think and rethink on our strategies. Your question is also with regard to that India can be an attractive location in the context of PLI also for our global e-mobility solutions, yes, there are some opportunities and actually we are working on the R&D with our global sort of organization in that space, but that was irrespective of PLI, but certainly PLI actually makes it more easier to treat the strategy and we would keep that focus on also for our strategic redirection that we have to go for in the future.

Shyam Sundar Sriram: Sir, the other part of the question was, in this balance of 2 years in this 1000 crores CAPEX that you are investing, what are other broad areas other than the probable investments of the PLI to leave that aside, what are the other areas, is it more focused on the industrial segments adding products like the linear guideway, similar adjacencies that we are exploring on the industrial side, is that where the focus for our balance CAPEX will be if you can comment on that?

Satish Patel: Yes, it is combination of both actually, so yes, we would be investing for conventional, we would be investing for hybrid, we would be investing for localization and we would be investing for the short-term capacity expansion. So, it is combination of all of that and this would be balanced both in industrial and automotive, so industrial there are some sectors where we have opportunities to localize and offer better solutions, so we are investing there. There are some export opportunities as I mentioned and we are investing. At least our second and third year of investment is also contributing towards the exports in the roller bearing space and then we have certain opportunities in the automotive business. So, it is all actually sectors and the businesses that we would be investing. So, it is not that, but yes, it is clear that the next 3 years investment is not that significant for e-mobility. I think the e-mobility investment is going to come slightly later. In developments and the solutions that could be offered that would begin in the next 2 to 3 years.

Shyam Sundar Sriram: On the margin side, sir, just one house keeping question, so if you see the underlying commodity prices have been spiking up too much this year, I understand we have taken some price increases in this calendar year CY21, how much of price increases on an average in the aftermarket because the OEM we would have passthrough mechanism per se which would come through with lag, specifically in the industrial side and the distribution both auto and the industrial distribution side, how much price increases have we taken on an average and how much is required to bridge the gap with respect to the underlying commodity inflation? That is my last question?

Harsha Kadam: As you all know that the steel prices are going up every quarter and by the time we go to the market and try to recover, there is always a lag period. So, certainly, we are going through challenging times when it comes to the steel price increases, no doubt about it. We are putting in lot of efforts to ensure that it gets equally compensated from the customers and it is a journey we are on right now, but what is more relevant and important is the other set of actions and countermeasures that we have put in place in terms of managing our costs or overheads and our spend, so we have also started to work in that direction to see how do we manage to focus here and contain our expenses as well. Apart from this, of course, we have started to revisit our sourcing strategies as well to see can we localize more and more, cut down the imports further, our components and raw materials, so all the three approaches are going hand in hand right now. So, to clearly quantify and to tell you, whether we have recovered the entire thing would be I think a very challenging task here right now. Satish, you want to add.

Satish Patel: Yes, couple of comments, I think specific to the question about aftermarket and destination that have we gone for the price increase and how much. Though we are unable to actually let us say talk exactly the number, how much price increase that we have gone for in both aftermarket and distribution business, yes, price increases have been involved in all these segments including aftermarket and distribution. Have you ever as you know the markets are different, in OEMs,

OEMs also have gone ahead and increased the prices of the vehicles and the end-consumers ultimately pay for the price increases, so it is across the supply chain and there will be a sort of backend link as well. In distribution and aftermarket, it is more of market sectors which also prevail for the price increase. So, yes, we have gone for the price increase and as Harsha mentioned we are revisiting this depending on the situation of the commodity cost pressure which is actually ongoing, in fact, this year it has been recurring all through the year, even now it is being very much imbalanced, so depending that situation, we would have to revisit this also for aftermarket and distribution, but yes, we have certainly gone for certain price increases there as well.

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

Sachin Maniyar: Sir, two clarifications, one is on the aftermarket has grown by 50% Q-on-Q as well as in the Y-o-Y, so can you dwell what led to such a high growth in this sustainable? Second thing is, in the industrial segment, we have this industrial segment within mobility and industrial segment within other segment, what separates them and actually there is a strong growth in industrial segment in others, so can you tell which are the subsegment which had led to such a strong growth on the Q-on-Q basis in the industrial segment, can you highlight few of the segment growth within the industrial segment?

Harsha Kadam: Let me start with the aftermarket part of the question. Well, as you know that with the slowdown that started to happen in the volume reduction due to the chip shortage, I am sure you must be reading that the used car segment is growing much faster now and obviously that would mean the demand for the aftermarket products also would go up, so that demand in the aftermarket products have helped us as well. That is number one. Number two, we continue to add as I shared in my presentation, we continue to add more products in our portfolio, both in the conventional products like clutches and bearings, we have been continuously expanding our product in the aftermarket space to more vehicle models and that is one of the things that has helped us to also garner more share. The third thing is addition of the new products which I talked about, like we started off with by bringing the engine lubricant, engine oil as a lubricant oil and then we brought in grease, now we have brought in coolants and then we had brought in some other products like shock absorbers and UJ cross, so we are now also looking at how can we diversify and expand our product portfolio. So, all the three put together has helped us to grow the business in the third quarter phenomenally.

Satish Patel: And Sachin, your second question related to within mobility, others grew significantly which are those sectors and why that growth, the answer is in mobility, others include basically our wind business and the raw material business. All our business is within industrial space like two-wheelers, tractors, all these businesses including distribution which is also in the similar segment and railways. These are all mobility in our businesses. So, basically, raw materials and wind business in others and that sectors, both, particularly wind grew significantly this year. Therefore the others actually growth is seeing very high this year which is likely contributed by growth in wind business.

Sachin Maniyar: And sir, these both segment has contributed even to margins in last 3-4 quarters, because we have seen that the margin is also increasing last few quarters?

Satish Patel: As far as wind is concerned, yes, wind is consistently growing since last 3 to 4 quarters, in fact this year it has grown 100% over last year whereas in general all other sectors have grown about 50%, so wind has outperformed all other sectors, but the contribution in the profit is by all the sectors, no doubt and it would be very difficult to let us say summarize and say only wind contributed to that.

Moderator: Thank you. The next question is from the line of Ramesh, an Individual Investor. Please go ahead.

Ramesh: I have a question, you have just now declared stock split and you have reserves of almost 100 times share capital, why did you not choose bonus issues, why you prefer stock split?

Harsha Kadam: Very good question, see, any corporate action you take, there would always be expectation of why not this and why this, but let me just answer, if you know our last stock split was really 20 years back. Now for over many years, there has not been any corporate action. It is not only our, we saw let us say our own thinking, but there have been lot many feedbacks from the investor community, there have been lot many other sort of feedbacks from all other stakeholders and we have also looked into our own sort of corporate action aspects and it was actually found appropriate that we go for the stock split, this is the right time where when we go for stock split our shareholders will be able to participate, we are at the, let us say, infection point of the growth, the future mobility growth, we are also earmarking our ESG journey and I think this is also the right time that we have wider shareholders. Our shareholders are able to participate and we create value for shareholders. So, that is the right time to go for stock split. That is how we have announced. Yes, there are re-shifts about the bonus issue because of the high results. As we know, we have also sort of strong plans in terms of the future growth we have to make investments for the growth and probably there may be a time in the future for some of that corporate action, so yes, there are such sort of feedbacks about the bonus issue as well, but we thought it appropriate to go for this corporate action which is very contusive under the current circumstance.

Ramesh: Sir, in general, bonus issue will not result in cash outflow and I don’t think so you have a history of bonus issue in the past as well, if I am correct?

Satish Patel: We had a bonus issue quite many years back, so we have gone for bonus issue, but it was way back, I think about 20-22 years back, but yes, you are right, long years we have no bonus issue. We take your feedback as well.

Ramesh: 100 times the reserve, generally people go for bonus issues, 100 times the share capital have reserves.

Satish Patel: Thank you for the feedback and we welcome such feedbacks, probably these feedbacks would help us at some point of time to actually also consider or think about some of the other corporate actions.

Moderator: Thank you. We will take our next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Sir, I have couple of questions, firstly if you could share a little bit update on the product OPTIME which we had started selling as a solution, if you can give us some sense of the customer base that you have over there, probable revenue size that can be garnered and typical margins that you can make in this business?

Harsha Kadam: As you know, the OPTIME has been one of the spectacular products that Schaeffler has brought to the market which also incidentally has won the Red Dot Award as such. Coming to India, while we introduced this product into the market and as a test and there were some initial hurdles from the department of telecoms which we have to work with as this product works on the network which has been ultimately resolved and now we have started to bring the product to our customers here. Some of the target segments like the raw material sectors, primarily addressing the steel, the paper and pulp, the cement industry, the customers have received the product very well as they see that it is a value for money, product giving a huge value to their maintenance operations and that is clearly evident. What we are now trying to do is expand the offering to other sectors as well, so clearly we have a strategy out there in the market to grow the market shares in this product and in the business of condition monitoring. So, we are well poised with good technology product and we will be now integrating this product to other digital technologies that are also there and we will start to hear that very soon probably in the next quarter.

Sandeep Tulsiyan: And second question was, on the two-wheeler electrification side, couple of quarters back, you mentioned it is too early to comment regarding any tie-ups or relationships you got with the OEMs, if you can give an update given there have been a lot of booking that have picked up in the past two quarters, so have we engaged into any sort of tie-ups with the current OEMs?

Harsha Kadam: Well, as you know that when it comes to the pure electric vehicle technology, the two-wheelers and the three-wheelers apart from of course the commercial vehicles, buses would be the early adopters of this technology, so rightfully with the government also clearly focusing and driving the growth in that sector to address the emission norms and the climate change issues, so we are also embarking on that journey. We have now done our technical evaluation as to what can we bring to this sector, particularly in terms of pure electrification. Well, I am not at liberty to release the names of the customers with whom we work as such, but definitely this is already in the pipeline and we have initiated the development work on projects with the few of our customers.

Sandeep Tulsiyan: And last question, again on the gross margin part, would I be correct in saying the mix is disproportionately beneficial over the last two quarters, because railways is sort of the reckoned business is absent and exports and aftermarket has been growing well and as demands of railways comes back, probably Schaeffler will see much higher impact on gross margins versus peers probably because of higher share of OE versus aftermarket, would that be a correct evaluation?

Satish Patel: No, I would not say so because first of all, railway is not a major in terms of contribution, very high contributor in the total sale, yes, within industrial space, railway is about 4% or 5% of total industrial business, but the gross profit contribution actually comes from all the factors, mix is one of them, quantum is another, volume gain is third and sort of this balance business portfolio is **(Inaudible) 1.8.42** so there are quite many factors, but I don't think this is going to, the railway sort of situation going forward is going to make any major difference in terms of the gross margin.

Sandeep Tulsiyan: If I am not wrong, railway is about 5% of total sales, right, not just industrial, about 200 crores to 250 crores of business that we do?

Harsha Kadam: Railway is about 150 crores, so it is about 5000 crores if I annualize, 150 crores it is 2.5, so on industrial is 5%.

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

Sonal Gupta: I think just on the two-wheeler electrification part, could you sort of highlight, like which products are you looking at in terms of from your perspective?

Harsha Kadam: I would like to explain here that Schaeffler is already having a lot of competency in terms of the motor as an application in the electric vehicle technology. As even the thermal management system that was required in the electric vehicle application, not to mention of course the software development which we already have a little bit of competency in Europe, so apart from this of course, Schaeffler has the capability to scale up and move up the value chain in terms of offering the transmission system that we can integrate with the motor and the rest of the system that goes with it. So, just to share in India, we have developed the two-speed transmission which is required for, to give enough talk when a two-wheeler goes on a gradient, we already have proven solution here with us and the question is now to integrate that with the motor and so thereby we can move up to mechanical and electrical system level product rather than just remain at the component level, so we have quite a few projects running there apart from the twin speed transmission that we have already developed and proved, we also are working on projects pertaining to the trial systems and the thermal management system.

Sonal Gupta: And on the motor side, sir you have just range of motor I mean globally or I am sorry I am not aware of how it is on this segment?

Harsha Kadam: Well, just to share with you, Schaeffler did make an acquisition about 3 to 4 years back, a company called Compact Dynamics which was a small company that was specialized in manufacturing motors for electric vehicles application and these are very light weight high power density motors. Now, this competency is already there in Schaeffler. Now the question is adopting this competency to varied applications like for example, the two-wheelers in India, so what this does is the winding technology is very different from the traditional conventional motors and there again one more acquisition was done in the last 3 years of a company called Elmotec Statomet which is specialized in the way of winding technology of motors specifically meant for high power density applications, low weight, high power density applications. Now, having both these within our offerings, so we have been able to offer much better performing motors that are required for the electric vehicle applications. That is number one. Number two, we have also well poised because we already have leap-frogged into the technology to not just manufacture electric models, but also design and develop the machines that require to manufacture these motors. So, both the competencies currently rest with Schaeffler. Now, we are working with the teams to see how can we now bring this to India.

Sonal Gupta: So, it will be safe to assume that you are already in discussions with some of the EV startups that were potentially because where I am coming from is that given the FAME requirements in terms of localization, etc., these will have to be localized in India for….

Satish Patel: Well, it is a question of the volume gain as you know, so we will have to take that call, do we make it hear from scratch or do we bring in and make investments and start to make here once the volumes pick up. That is the call we will take as we go for.

Sonal Gupta: And just a quick question on the margin side, I mean just like while we have seen the steel prices go up quite substantially over the last year, may be 100% or something in the ballpark for the HRC, is that the right benchmark for the steel that you use or would you use some specialty steel where the price increase may not be have been of that order of magnitude, I am just trying to understand from just a pass-through perspective?

Satish Patel: On the kind of steel that we use in our industry predominantly, there are two parts to the application. One is definitely the bearings and related solutions, which are specialized steel there and the other obviously would be the standard steel which goes into the automotive applications as well, so your point is very right, we have seen steel price increases, a cumulative increase over the year starting from 35% going up to close to 80%, we are seeing that as well. So, since we use products from both sides, specialized and non-specialized, we have the challenge of being with both sides.

Sonal Gupta: So, even the specialized you are saying would have gone up by that sort of?

Harsha Kadam: Yes.

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

Mukesh Saraf: Just had one question, from the LCVs as well as on the passenger vehicle side, we are seeing the CMGs getting preferred a lot more of late, so just wanted to understand how does that impact as we have some solutions for some products which are specifically for CMG, is it true?

Harsha Kadam: Well, I talked, I will be listening into Mr. Gadkari's comment that the focus is clearly on ethanol and blended fuels and biofuels and CMG and the last resort would be LPG in that order, so the government clearly is focusing on bringing in other fuels and the blended fuels I thought is going to catch up more than the CMG and LPGs focusing. So, well, for us from a transmission application perspective that doesn't matter what fuel the engine uses as such, from an engine application standpoint, there could be some products which may have to be technologically tweaked to meet the new requirements depending on the fuel change, but that I don't think is the big challenge for us to deal with.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor back to Mr. Vijay Chaudhury for closing comments. Over to you, sir.

Vijay Chaudhury: Thank you so much. With that ladies and gentlemen, we will now close the call and if you have any further queries, please do reach out to me or drop an email to me at vijay.chaudhury@schaeffler.com. Thank you and have a great day.

Moderator: Thank you. Ladies and gentlemen, that brings us to the end of today's conference. Thank you for joining us and you may now disconnect your lines.