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"Schaeffler India Limited Q4 CY23 Earnings Conference Call"

February 19, 2024

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Moderator: Ladies and gentlemen, good day and welcome to the Q4CY23 Earnings Conference Call of Schaeffler India Limited.

As a reminder, all participants' 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 touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Gauri Kanikar from Schaeffler India Limited. Over to you, ma'am.

Gauri Kanikar: Good morning, everyone and welcome to the 4th Quarter and full year Earnings Conference Call for Schaeffler India Limited.

Today, we have with us from the Management, Mr. Harsha Kadam – our Managing Director and Chief Executive Officer and Ms. Hardevi Vazirani – our Director (Finance) and Chief Financial officer.

Mr. Kadam will first take us through a short presentation on the results, after which we can open the floor for questions. Over to you, Mr. Kadam.

Harsha Kadam: Good morning. A warm welcome to this 4th quarter and the full year ending earnings call. I am Harsha Kadam here, and I would like to take you through the presentations. I hope you are able to see the presentation.

I am on the next slide which shows the agenda. I would be taking you through some information on the economy and the industry as well as moving on to the business highlights of the Q4 and also the 12-month period of 2023. Next, I would like to throw some light on the financial highlights of Schaeffler India for Q4 as well as for the full year. And last but not the least, I would like to touch upon a little on how Schaeffler India is adding value to the stakeholder community that we operate in.

Moving on, I am on the next slide which is talking about the Economy and the Industry:

As you can see, the Indian economy expanded to 7.6% year on year in the 3rd quarter of 2023, following a strong 7.8% growth in the previous period. But if one were to look at the Index of Industrial Production, you would see that in the last quarter of 2023, there has been some contraction, but we guess it's more to do with the seasonal effect that is there in the system. The manufacturing sector soared phenomenally by almost 14%; construction sector went up almost 13%; the utilities almost 10%; mining grew by 10%; and some of the service sectors which are predominantly the financial, real estate, and professional services grew by about 6%. The weak performance was visible very much in the farm sector which grew by a meager 1.2% due to erratic rainfall across the country.

I was talking about the Automotive Production -the 4th quarter '23 production has been pretty strong in the passenger vehicles, in the commercial vehicles, as well as in the tractor segments marginally. So, the year-on-year growth for the passenger vehicles was at about 8%, commercial was 2%, and the tractor saw a contraction to the effect of about 2% over the previous quarter in the last year. Inflation on the other hand remains at a steady state and the Reserve Bank of India has been kind enough to pause the repo rate hikes thereby keeping it unchanged and enabling the inflationary situation to remain more or less stable in the country as such. Although this is on the back of the high food prices and the vegetable prices which have been riding on the back of a weak harvest season due to the erratic rains that I have already mentioned about.

Moving on, I would like to throw some light on the Core Sectors that you would yet to see - talk about the industrial production sector: as you can see, cement production was equally strong in terms of growth at 7.5% over the previous year. Talk about coal production, the mining has been doing pretty well. I did say it's well above 10%, and here you can see in the last quarter, the trend has been very strong. A 12% growth you are able to see. Even the steel production in the country riding on the back of the infrastructure push by the government, you find that the steel sector also did fairly well with close to 14% growth rate. The star performer has been also on the electricity generation in the country, where the weightage has almost moved to 20% of the sector weightage. And that's a phenomenal story clearly pointing at the demand for energy in the country going up.

I move on to the next slide, which is throwing some light on the automotive sector performance: and what you see here is the 2- and 3-wheelers was one of the sectors that was impacted. The export market of the 2-wheelers was down in the quarter very badly. And also, overall ended the year almost with 20% down on the export side of the business. While the domestic production numbers on 2-wheelers were up almost 4%, what you see the cycle of the drop in the last quarter of last year is predominantly due to the business cycle that the 2-wheeler always has. Passenger vehicles, on the other hand, did put up some good performance, almost an 8% increase in production for the full year, and for the quarter as well, there was a 5% growth compared to the same period last year on the passenger vehicle front as well.

Commercial vehicles, on the other hand, again, on the back of a weak export market showed a growth of just about 6% in the last quarter, but at an annualized level grew by almost 5%. The one sector that has been languishing is the agricultural tractor sector. And here the reasons are very obvious. Riding on the back of a weak monsoon as such, and the traction that was lost last year continues this year as well. And tractors is one of the sectors that we have seen a de-growth and it's almost 2% below last year's performance as such.

With that kind of a backdrop and the situation, I step into the next slide which is going to throw some light on the interim budget that the Government of India announced on 1st of February. And clearly, in this budget, the focus was all on fiscal consolidation. While it talked a lot about development and transformation which received very positive reactions by the way, but then the fiscal consolidation is one of the clear objectives that has come out. And as you can see on the left side, the clear allocations to each of the areas and we find that the defense sector has received the big chunk of the allocations in the budget followed by the Ministry of Road Transport & Highways, Railways, clearly pointing to the continued infra push from the Government of India. This is kind of enabling some of the business sectors that Schaeffler India operates in. Take for example, if one were to look at the Railway sector, in this budget, it was announced that 40,000 normal rail bogies would be converted to Vande Bharat. And the standards of safety, convenience, and comfort are given the highest priority. And that's where we as Schaeffler definitely our product portfolio helps us in enabling business growth in the Railway sector. Also, 3 major rail corridors were also announced – the port connectivity corridor, the energy connectivity corridor, as well as the mineral and cement corridor. And we believe that this is going to enable the growth of the freight segment within the Railway sector. Talk about the electricity, obviously, clearly the government's drive on renewable energy production through the roof top solarization wherein 10 million households will be enabled to obtain about 300 units of electricity every month, is a step in the right direction wherein India's move towards carbon neutrality. On the other hand, also the viability gap funding, which will be provided for harnessing the offshore wind energy, is viewed as one other strong stimulant to get the wind sector to perform as well as a major player in the renewable energy generation in India. And the others, of course, are the coal gasification and liquefaction, high focus on biogas and compressed natural gas. So, energy definitely is a clear focus area.

One other segment that definitely receives attention is the electric vehicle segment where the government will expand and strengthen the ecosystem. Although there is already FAME-I and FAME-II that are already existing, but the charging infrastructure is clearly going to be the next focus area, thereby creating a proper ecosystem to address the growth of the demand in the electric vehicle technology. Here again, at Schaeffler, we are playing the game in a strong way.

With that, I move on to the next Slide, which is the Business Highlights, and let me throw some light on this - let me start with how the quarter go for us:

The positive point was, in the last quarter, we were able to secure a lot of new businesses which puts us in the growth trajectory so that our continued projects' pipeline is staying full. And also, we did see that there were enough new business wins, both in the automotive as well as in the industrial space. And this is also enabling us to continue and sustain the balanced business portfolio that we have between the automotive and the industrial. One other good, positive development was, the Board of Directors of Schaeffler India Limited have recommended a dividend payout of INR 26 per equity share of face value of INR 2, resulting almost to a 45% payout ratio which definitely is an improvement over the last year.

ESG has always been our focus area, and the way we run our business is clearly on the foundation of ESG. And here, again, we continue to keep clear focus with our sustainability targets as well as to work with the society and community around us. I will share a slide later. We did definitely have a challenging year which tested our agility. As you know, the top line growth, what you see on the right side, was just about 3.4% in Q4 compared to last year's same period. However, but with the actions that we had put in place, and we realized that we had to continue to keep a clear focus on overheads and a clear drive, we now sustain 16 projects which we continue to keep the focus on, thereby trying to deliver the profitability targets in line with the expectation as such.

We ended the year with an EBIT margin of 14.9% in the quarter, as you can see. And which was 1% lower than the last year's same period. The profit after tax, we were able to deliver 11.7% in the quarter, which was a clear once again 1% lower than last year. While the free cash flow looks to be -27% or -28% in the quarter, what I could see, which I will throw light on the subsequent slide, is the consistency in free cash flow has improved every quarter. In absolute value terms, we have been able to generate good cash into the system. And overall, I must say it was a challenging year in terms of the weakening market outside of India and our exports were also under high pressure in terms of getting to the numbers. So, in the last quarter, Q4, our export business was down almost 30%, but yet, we have been able to grow our domestic sales within India as such. So, entering 2024, we definitely see some upticks in some of the sectors. We are seeing a strong rebound from the wind sector which was down last year, and we have started to see some good demand coming in from the wind. And automotive too is having a dream run, particularly the SUV segment within the automotive sector.

Now, that said I would like to throw some light on some of the new businesses that we have won - as you can see in the passenger vehicles, clearly our focus is on emission reduction and improving reliability, and we bring in very value adding products there to our stakeholders whether it is on the wheel bearings which is our basic bread and butter product or for that matter, new double clutches for the commercial vehicle segment, which is clearly addressing the stringent emission norms that are in vogue now. That said, even in our aftermarket, we continue to add more products into the portfolio. And obviously with the e-commerce platform that we have now, this is only a growth enabler and it's a force multiplier for us to expand our product offerings to the market through the automotive aftermarket channel.

On the industrial side as well, where a lot more focus is now coming into precision and efficiency, we are clearly positioned to win the businesses as a motion technology company with the product portfolio that we have and what we make in India. And quite a few business wins, both in static applications as well as in dynamic applications, we have been able to bring it our way, and this is only going to fuel the growth going forward as well.

Now, that said, I move to the next to throw some light on the financial performance in Q4 and the full year - as I said earlier, the total revenue for the year that you see, quarter-on-quarter growth has been 2.2% and full year total revenue of 17.8%, resulting in a 0.4% quarter-on-quarter growth for the quarter. So, over the preceding quarter, we were able to just post about 0.4% growth. Year on year, we did about 3.4%. Compared to last year's performance, this has been a challenging year, as I already mentioned. How did this growth happen between the business divisions? As you can see, automotive technologies actually contracted a bit in the quarter compared to over the preceding quarter by 0.9%. However, compared to the same period last year, it was a strong 9% growth story. In the 12-year period, we are almost up 12%. Automotive aftermarket too had a positive growth story in double digits compared to the preceding quarter or the same period last year, but overall, a 12-month period performance 15% growth.

Industrial, on the other hand, also had some slowdown in the last quarter posting about 1.2% growth over the preceding quarter, but however, when one were to compare that with the last year's Q4, you will find it is around 17% uptick, taking the overall industrial growth at an annualized level to 5.1%.

I did touch upon the point that the export was one of the dampeners for us, and as you can see here in the quarter, it was down almost 5.3% over the preceding quarter, and it was 36% down when compared to Q4 of 2022. Overall, at an annualized level, our export business was down 15%. That said, clearly our business mix continues to remain pretty balanced between the automotive and industrial, as you can see on the pie chart there. Our exports, which had hit almost 16% of the total revenue, have dropped to 11% in the pie, yes, whereas the automotive aftermarket remains at a steady state of 10%. I move on to the next slide which is talking about some earnings quality. And here you see the profitability picture. The EBIT margin or the EBIT value for the Q4 of 2023, we were able to generate INR 275 crores in cash with an EBIT margin of 14.9%. And that was 1% lower than the preceding quarter and almost 1.5% to 2% lower compared to the last year. That said, we still continue to focus on our efficiency and productivity in the operations as well as overhead cost management as such.

So, clearly, the profit after tax, which was also impacted as a result, as you can see, we delivered a profit after tax of INR 217 crores in the quarter taking the profit after tax percentage to 11.7% and at an annualized level of 12.6% which is 0.2% lower than last year comparatively. All in all, a tough year but then we still try to sustain and deliver the financial results in line with the expectations, and we were able to end the year with an EBIT margin of 15.7% at a year-to-date level compared to 16% of the previous year.

I move on to the next slide, which is going to throw some light on the working capital - and as I did say earlier, our working capital as a percentage to sales, we have been able to manage it pretty well. It is at an optimized level that we would like to operate in, and we were able to reach a level of 17% in the last quarter of last year. And we continue to manage the working capital in a very efficient manner. On the other hand, our CAPEX, while it appears that there is a marginal drop, but I must say here that we stand committed to invest in the capacities exactly in line with the plan. This investment drop that you see in the last quarter is only a timing issue. However, we will continue to do so. The investment ratio as a percentage to sales, the number speaks for itself. As you can see, in the first quarter of 2022, we were at about 4.8% and we have steadily moved up, and in the last quarter, we were at 7.7%. That clearly shows that our commitment to investing in India for localization and the Make-In-India continues to hold good.

On the free cash flow - overall strong generation of free cash flow, rightfully. Yes, in the last quarter, as you can see in Q4 '23, it was marginally lower compared to the same period last year in 2022. However, if you look at the annualized level, we were still at strong levels. We were able to bring in almost INR 177 crores of cash into the system in the last quarter of last year.

That said, I move to the next slide, which is going to throw some light on the summary and the key performance indicators - I did already talk about the growth story, 3.4% revenue growth year on year. And at an annualized level, it's a 5.2% growth compared to the same period last year with an EBITDA margin of 17.9% compared to the previous quarter's 19.2% of 2022. At an annualized level, we ended the year with an EBITDA margin of 18.7% which was a marginal drop of 0.3% compared to 2022. I already talked about the EBIT margin and the profit after tax. I touched upon the CAPEX investment rate. Clearly, as you can see here on the CAPEX row, last year 2022, we did spend INR 316 crores, investing in our capacity towards our localization efforts, which in 2023, we almost doubled to INR 610 crores here.

That said, I move to the next slide which is throwing some light on the consolidated financial results. As you all know that we did make an acquisition last year of an e-commerce B2B platform, specifically in the automotive aftermarket area of our operations. And we would like to share with you the separate picture as to how it would look. If one were to look at the middle column, the KRSV Innovative Auto Solutions Private Limited, it generated a revenue of INR 19.5 crores coming in, in the last quarter and taking the total consolidated Schaeffler India revenue results in the quarter to INR 1,874.6 crores. Of course, the e-commerce platform being a new venture, the reach and the pan of reach within the market is still in an evolving stage. You would find that the EBITDA and the EBIT would be at a negative level. But we are confident with the kind of growth story that we are painting here, we will soon get this to be a positive value adding business going forward, which is only going to complement the standalone Schaeffler India results as such. At a consolidated level, our EBITDA margin comes to about 17.5% and before exceptional EBIT margin at about 14.5% and earnings before taxes at about 15.8% overall. That said, I would now like to throw some light on how at Schaeffler, we add and create value to our stakeholders.

I move to the next slide which is going to throw light on the dividend payout for the year 2023:

I am happy to share that the Board of Directors of the company have approved a dividend payout of INR 26 per equity share at the face value of INR 2. And this has been an increase of INR 2 per share over the last year, which is a clear 8% increase. And this is also taking the payout ratio to 45% which is exactly in line with the commitment we as an organization have made to our shareholders to take the dividend payout ratio closer to 50% and we are currently at 45%.

With this good news, I come to my penultimate slide which is talking a bit about our effort in terms of encouraging and working with startups. At Schaeffler India, we started off an initiative called the Social Innovator Fellowship Program and we have received tremendous response. This is the second year, we had that last year, and we received a total of 260 applications. There were specific areas in terms of applications of technology, carbon neutrality; then, circular economy was one of the subjects that we included. Environmental sustainability was another and renewable energy was another area. Out of the 260 applications that were received, we put them through the grinder to select the best top ten. And the top ten were presented to us. And what we do is these top 10 innovators are then subsequently sponsored by Schaeffler, working with IIM Ahmedabad for a mentorship program to help them how to incubate the startups and grow the business going forward successfully. This is our small effort in the direction of working with startups who are truly adding value to India and the community around us. This is a good initiative. We will continue to work with more and more startups as we move forward as well.

With this, I move to my last ultimate slide which is more on the summarization. Domestic business continues and the concern that we saw was only in the exports. And our focus clearly being on the domestic business will continue while in exports, we are ready and prepared. As the market landscape changes outside India, we will continue to leverage the growth there as well, as the market comes back. We will keep our focus in terms of delivering our promise and the quality of earnings, and we are clearly revisiting our countermeasures, and we will stay on top of this. And for CAPEX, as I already said, we will continue our localization percentage to go up. Currently, it is sitting at about 75%. We would definitely want to take that up further year on year. I already talked about it. 2024, we look forward to a year optimistically with strong upticks coming back in some of the key sectors which mean a lot to the business of Schaeffler India here. And we believe that with the strongest portfolio, widest portfolio that we have, and as a motion technology company, we will leverage the growth opportunities that are right in front of us.

With that, I come to the end of my presentation and over to you, Gauri.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Ankur from HDFC Life. Please go ahead.

Ankur: Just a few questions. To start off with, on the export side if you could just help us, would the last quarter be the bottom? Are you seeing green shoots in terms of recovery as we go forward? Just some color on some of your key markets as well – EU, APAC, US. How are you seeing basically the end demand from some of these key markets?

Harsha Kadam: Yes, exports did see some strong headwinds, as I already said, and we continue to see it. It all started off with the war breakout in Ukraine. And of course, followed that up with the war in Israel. And surely, that is definitely contributing to the slower demand that we are seeing. A lot of our export goes to Europe mainly. Yes, a little bit of it to China which we kind of are now de-risking it. Europe, we know, has to come back. It will come back. Meanwhile, we are also trying to look at Southeast Asian countries. We have been actively working with our colleagues there as well. And we also intend to see how best we can leverage the gaps that we find in Europe. And to that effect, we are putting some actions in place going forward. Now, to come back to your question on is this the bottoming out, I hope so. And hopefully look forward to an improved Q1 starting off this year. We will have to wait for another couple of months to clearly know what direction this is going to go. But we are optimistic, and we hope that Q4 2023 was the bottoming out, hopefully.

Ankur: As you also said, maybe you are also trying to look at more on the Southeast Asian markets as well, maybe to offset some of the weakness in the EU or China. Is that right?

Harsha Kadam: Yes. Obviously, we are looking at markets where the economies are doing well. Like, Indonesia is doing well still, Vietnam is there, Thailand is there. We are looking at these fundamentally to see if we can start to gain some businesses there – business wins – so that we can try and load the free capacity that we have.

Ankur: Second, sir, on some of your key industrial markets, because clearly, when I look at some of your peers or even the overall industrial B2B space seems to be kind of slowing down in terms of top line growth across some of their end markets. If you could just help us some of your markets like rail, wind, cement, steel, the Process market, how are things kind of shaping up there? Are you seeing a pre-election slowdown in some of these markets and then maybe a bump up after that, or is it business as usual? Some color there?

Harsha Kadam: First, let me start with the first part of the question that you mentioned. Are we seeing slowing down in the industrial sectors? We did see some slowdown in some industrial sectors, not all. There are 2 ways to look at it. If I were to look at just the Q4, the last quarter of 2023, rightfully some of the sectors like the offroad wherein the construction equipments do come in and the tractors to put together, we did see some slowdown there in the last quarter. The reasons could be twofold. 1) Tractor, anyway, is already down. It has been at its lowest point as such. But more on the infrastructure push, and this is exactly what I referred to that in the interim budget, there was a kind of a wait-and-watch that probably happened because of the upcoming elections. But however, the interim budget still keeps the focus on the infrastructure push. With all the construction, the infrastructure industry demands still continue to do. So, I am optimistic that the infra push is definitely going to continue, and we are going to see some positive traction coming in Q1 of this year. Another factor was wind. Wind has come back strongly. In the quarter itself, we saw it was a much stronger performance. Over the preceding quarter, almost 11% growth. And that is a strong uptick on the wind side as such. We have also seen that clear focus on Railways is also helping us because we have seen a strong growth in Q4 last year as well. And even at an annualized level, we have seen a strong growth story in the Railway sector for us. As I said, all in all, yes, there is a mixed bag like the 2-wheelers took a little longer to pick up and they have still not picked up to the speed at which they should be running. The 2-wheeler sector is still struggling there because their own export market is hit very badly hence. Overall, we have a mixed bag, but then, we have also seen that in some of the sectors, obviously the demand uptick is visible already.

Ankur: Sir, also in the Process industry? Oil & gas, steel, cement, anything there?

Harsha Kadam: Yes, I did talk about the energy sector. It is doing well. But if I look at an annualized level, surely, we have seen our business grow in the energy sector, mining sector, as well as in the process industry sector. All the three. We have seen a strong uptick there. Demand has been good. Q4 has been a bit slow, rightfully, as you pointed out, with the apprehension of the forthcoming elections. It could be a dampener, but I don't think it's very bad. At an annualized level, definitely we are seeing a good growth story in all these 3 areas.

Moderator: The next question is from the line of Ajox Frederick from Sundaram Mutual Fund. Please go ahead.

Ajox Frederick: Sir, my question is again on industrials from a CAPEX angle. From the CAPEX what we are doing, what proportion will be going particularly to industrials and what will be the asset turns for that CAPEX? That's the first question.

Harsha Kadam: We have consistently been investing both in the automotive and the industrial space. Rightfully, the large part of the investment is in the industrial space. Why? Because our localization content was lower there, yes. And we have now consistently kept the focus to make more and more products for the industrial space in India. And we will continue to keep that focus to invest on the industrial side of the products. Automotive, on the other hand, is more what we were importing, we try to do it here now because one of the critical criteria for an automotive OEM is to have a strong supplier base. Supply chain itself has to be here. And some of the products that we make have some niche technologies which today the supplier capability and competency is still not there in India. Hence, we continue to import. But there again, our clear localization drive is going to enable us to increase our investments on the automotive going forward as well.

Ajox Frederick: Just a followup to that. From our target perspective, will we be increasing CAPEX on the industrials, or the run rate will still continue?

Harsha Kadam: I don't have the precise data right now, but all I can say is, yes, we will keep the focus both for the automotive and the industrial. As I already said, we have a major breakthrough in the electric mobility sector now, and rightfully for that, we will have to start a localization plan. We will have to start making subsystem level products in the automotive space as well. So, we will be continuing to invest even on the automotive side because there, in the technology landscape, we see a demographic shift happening in terms of electric vehicles catching up as well in India. So, we are gearing up for investments even in that field.

Ajox Frederick: Just my final question. On Railways, what is the business right now we are doing and where can that scale up, let's say in 2 to 3 years' time frame?

Harsha Kadam: On the Railways side, predominantly our products are on the axle boxes and bearings that go into it. We also are a strong player in the traction motor applications which go into all electric locomotives. The fact that Indian Railways has a clear strategy to become 100% electrification is actually helping us grow our business because we are the only ones who have been able to develop insulation coating bearings for the traction motor application. And our customers have even recognized us with multiple awards in the last year on this. That said, clearly our strength is already there. Apart from this, there are a host of other products. We are also now getting into the digital space. How do we operate because everything is going digital? So, Railways definitely is a very strategic and important sector for us. And we have won businesses on the

Vande Bharat trains. And as you know, the engineering specifications and standards for the Vande Bharat are very different from the older train technology that was there in India. And that said, we are gearing up not just in terms of manufacturing capacity, but in terms of engineering competency as well. Both the areas we have addressed very clearly. Even now, the third area that we are getting into is also infrastructure to carry out testing facilities for Railways in India. All the three.

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

Mukesh Saraf: My first question is on your EV plans. You had just alluded that obviously you were going to be earmarking a lot of investments there. Just trying to understand how it is going to work between, say, with Vitesco India and Schaeffler India, given that at the parent level, the businesses are kind of getting combined. How will the parent be sharing its technology between the two Indian entities?

Harsha Kadam: Let me break that question into two parts and try to answer it. The first, obviously, is our e-axle project with the customer here, which we have been actively engaged with. It is going as per schedule on plan, and performance has been pretty good. That said, as I mentioned earlier to the previous question, we are also drawing up plans to localize and manufacture the e-axle in a phased manner. That's going to happen as such. And investments to that effect are already underway. So, clearly our commitment and focus to invest into the electric vehicle technology in India is already there and actions are already underway. That said, we are also actively working with other customers for other platforms, obviously, to try and get more business opportunities into the pipeline in the e-vehicle technology area. That's the first part of the question. The second part being you brought onboard the question of Vitesco. Vitesco has been a strategic global acquisition for Schaeffler AG. Globally the company has been acquired. Why was this done? Clearly, within the wide portfolio that we have, one of the gaps was in terms of the digitalization and electronics offerings. And that was the gap in our portfolio, which finally is filled in. The only way we see now going forward is Schaeffler and Vitesco together, clearly, we have the capabilities now to offer a system level solution offering to our customers as a one-stop shop. Whether it's the electric motor, the reducer, gearboxes, the control systems that go with it, the electronics part of it, or the thermal management module that needs to be there to ensure that the entire system operates in an efficient manner, all the four put together, we have been able to now offer as a one-stop-shop offering. That's the complimentary outcome of the Vitesco that you touched upon. At this point in time, it's the only global acquisition that has happened. We will continue to see how things will evolve as we move forward.

Mukesh Saraf: We are not sure if Vitesco will separately be getting orders from customers and Schaeffler also will be separately getting orders from customers?

Harsha Kadam: I am afraid at this point in time, I will not be able to answer that question as such, as it is too nascent a stage, we are in.

Mukesh Saraf: And the second question is on wind. You mentioned that there is an improvement in the wind business. But we also understand, and correct me if I am wrong, that a large part of our wind business is an indirect export. But obviously exports itself are not doing too well. Could you explain a bit more? Is there a domestic wind demand that is going up and that is what you were mentioning, or even the indirect, the gearbox exports that happen, even that is picking up?

Harsha Kadam: Let me lay it down for you first. If one were to look at the wind equipment business in India, 80% of what is produced in India actually gets exported out of India. Only 20% of the production is India's domestic need. That said, we have not seen a drop in the domestic demand, which is just about 20%. Where we have seen the drop is on the 80% side. Because our customers, their projects are delayed, their projects are put on the back burner, and so on and so forth. And predominantly, all the exports of the wind equipments, a majority was going to the European market and some of it going to the US market. What we have seen is we have seen a drop in the European market. We have not seen a drop in the Indian market, nor have we seen a drop in the US market. The impact of the European market is what is felt by our customers, which is actually cascaded down to us as a supplier now. I suppose I have now brought the clarity there.

Mukesh Saraf: But you had mentioned that there is an improvement. That is basically the 20% market in India?

Harsha Kadam: The 20% has remained steady. We are not seeing a drop there at all. Where we are seeing a demand uptick is on the 80% side.

Mukesh Saraf: Just the last one, a quick one, if I may squeeze in. In the presentation, we have mentioned that we have now won an order for DGBBs for electric 2-wheelers. Just trying to understand, I think in the past, you had mentioned that while the volume of bearings with EVs might be lesser, but the value will make up for that. Are we seeing that already in this order that we are winning? In terms of value, are these higher than the ICE vehicle DGBBs that we supply?

Harsha Kadam: It's a very good question you are asking, Mukesh. Let me again throw some light on this. If one were to look at the next 10 years how the IC engine market would be going forward. Obviously, the 2-wheelers being the early adopters of electric vehicle technology, we believe the IC engines could stagnate or start to decline gradually. But the size of the market in India, close to 20 million 2-wheelers produced last year, I guess, for '23 or so. That said, there is a substantial market that still will be there for the next decade. That's one data point. The second thing is, will the number of bearings reduce when the technology moves from ICE to electric? Of course, it will reduce. But then, what it would also do is, there is a shift in the product specifications and engineering specifications. Why? Because the EV requires a different specification. And that's where the new wins that we have started to secure on our bearings for the electric vehicle are differently engineered, and they have a different specification as well. To put it in a nutshell, while on the one hand we see the business of overall demand may reduce, not now immediately but after a decade or so, we are also getting into the EV bearings that would call for different engineering specs or manufacturing capabilities being re-engineered to that effect. That's already happening. Also, we are not ignoring the fact that we are now having the capability to offer electric vehicle technology even to the 2-wheelers. We are definitely evaluating and trying to work with some of our partners here to see if we can bring electric 2-wheeler solution to the market. That is currently work in progress, and I am not at liberty to share more details beyond that.

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

Harshit Patel: Sir, my first question is on our European exports. While I have noticed that the Schaeffler Group's, as in parents' revenues which they garner from Europe, they haven't declined very sharply in the past 3 or 4 quarters. On the contrary, our exports to Europe, they have, I think, declined very sharply. Since you have mentioned both Southeast Asia and the USA, they are doing relatively well. Could you help me reconcile this? Are there any specific end-user segments or product segments that we are catering to would have seen a very sharp decline?

Hardevi Vazirani: Harshit, as you are aware that Schaeffler Group has been actively pursuing inorganic opportunities. The growth that you see in our global revenues in Europe market are mainly including the inorganic growth that has happened with acquisition of some of the industrial companies. And the second thing is also that they are rationalizing the inventories. In Q4 specifically, they tried to reduce the imports from different countries, and they tried to utilize the inventories which were in stock. These are the 2 major reasons that you see that Europe numbers, the revenue has not de-grown, but the background is different that we have to know the inorganic portion of that.

Harshit Patel: Sir, my second question is on the gross margins. These gross margins have come off from close to 39% two to three quarters ago to close to 37% at the moment. This is a drop of close to 200 basis points in the last 2 to 3 quarters. Would you attribute this entirely to the share of exports coming down? Or there are some other reasons as well? If you could elaborate on this, that will be very helpful.

Hardevi Vazirani: The major portion is due to the drop in exports, and in the full year, our exports dropped by 15% points. This 15% drop in exports attributes maximum part of the gross margin drop.

Moderator: The next question is from the line of Sourav Gurjar from ICICI Prudential AMC. Please go ahead.

Sourav Gurjar: My question is on the expansion plans. Where exactly are we on the Savli industrial bearings facility you also displayed a few months back and the Hosur automotive components part? Have some lines come online, or phases of capacity additions actually occurred? And with that, where are we in the overall utilization for bearings?

Harsha Kadam: As you are aware, in the previous questions, I did touch upon the answer that our investment continues to stay the course. And as I already said, we are at close to 7.5% to 8% of our sales we are reinvesting. Predominantly, a large part of it definitely is in the industrial space and most of it is going into our Savli plant because that is the plant where we have space for expansion. The other plant in Maneja, which is also an industrial plant, there is no space for further expansion. Hence, all the expansions happen in Savli. That said, obviously, some of the product lines like large-sized bearings or spherical roller bearings or angular contacts, all these which are required in the process industries, the renewable energy sector is the clear focus area and Railways; we continue to invest for all these 3 sectors. And our investment plans are clearly on track. We continue to do that.

Sourav Gurjar: And anything particularly on the Hosur side? How is that moving, sir?

Harsha Kadam: Hosur which is a total greenfield project, and the building construction is ongoing. And as I see it now, hopefully we should be able to start the productions to come out; by the first quarter of 2025, we should be churning out the products from that plant as well.

Sourav Gurjar: On the Savli side, the additions are in a phased manner, right?

Harsha Kadam: Yes. I am not sure if you were there on the last visit to Savli. You would have seen the hall. That hall is getting filled up. Now we are going to start the additional construction of another additional hall, equally the size of the current hall because Savli, as I said, has plenty of space. We have not even occupied half the land area yet. And that's something is clearly our focus going forward as well.

Sourav Gurjar: And the second question is on the inorganic part. You just mentioned about inorganic acquisition which the group has been doing. We are left with INR 15 million of cash. Even with 30% to 50% of dividend payout and the CAPEX commitment, we still are with cash, right? Any plans for further inorganic opportunities apart from Koovers?

Harsha Kadam: Yes, we are looking out for good opportunities, and we will continue to look out for good opportunities. As I said, last year, we did acquire Koovers. It was a smaller acquisition comparatively, but nevertheless, the inorganic growth of Schaeffler India definitely is a clear strategy for us. And we will stay the course there as well. And we are cognizant of the cash we are sitting on as well.

Moderator: The next question is from the line of Mayank Bhandari from Asian Markets Securities. Please go ahead.

Mayank Bhandari: Sir, my first question is, within industrials, can you give us a direction of how Railways business has grown in CY23?

Harsha Kadam: Last year when I look at the full year, our Railway business has done reasonably well, and we have registered a double-digit growth rate. In fact, in the industrial sectors, almost all the sectors, we have done a double-digit growth compared to the previous year, which is pretty strong, pretty good. Of course, we did have some challenges in the offroad, as I said, because that's the only sector where it was a little bit dampened because of the demand being very weak. But Railways, yes, we had a good growth story, double-digit growth rate. And as I said, our investment strategy remains there as well, and we will continue to leverage the newer demands that are coming out of the Indian Railways sector as such in terms of performance and reliability. Definitely, we will have the competence and the wherewithal to deliver the products meeting both the areas of performance and reliability.

Mayank Bhandari: The overall growth has been 5%, which means probably Wind business has declined that is the reason, except that, all sectors have grown double digit?

Harsha Kadam: As you say Wind has declined, you will have to compare that with the previous year and then see because Wind in the first half was down pretty badly. It just started to take off only in the last quarter, Q4 of last year. To that effect, overall, yes, Wind was down, but then it started to show a positive traction and upward trend. And that is encouraging for us because Wind is one of the very important strategic businesses for us and we have a lot riding for the Wind sector as well.

Mayank Bhandari: Sir, can you give a breakdown of the auto business in terms of CV, PV, and tractors for full year CY23?

Harsha Kadam: Is your question about the market?

Mayank Bhandari: No, not market; Schaeffler India's breakdown.

Harsha Kadam: As I said, automotive has posted a pretty strong growth story compared to the previous year. And both in the power transmission and engine applications, we have done pretty well. The engine and transmission part of our business, including the clutches, has had a very strong growth story. Particularly, our clutch business has had a very strong traction riding on the back of some of the market also trying to adopt the dual clutches where our key strength is. And we are one of the largest players in the dual-clutch applications and we have been able to leverage that. We have been doing well there. Talk about the bearing side of the business, it is a challenging part of the business as such. But here again, bearings as such, it's not that we have lost market share. We have sustained our market share, but definitely it has not grown as much as it should have grown on the engine and transmission and the clutch parts of the business. Overall, automotive has seen traction. And as we see, IC engines still continue to demand. And with emission norms becoming more and more stringent, obviously the current products that we offer need to be re-engineered and we are leveraging on that because we have the strong engineering and design competency existing within India and also in Germany. We cross leverage the competencies we have, and we have been able to stay a strong and potent player in the automotive application space as well. Another data point is our business within the commercial vehicle sector has grown phenomenally in the last 1 year. This is clearly because of our focus that we have now brought on to the commercial vehicle segment, and we have been actively working to launch more and more new products in the commercial vehicle segment.

Moderator: Ladies and gentlemen, due to time constraints, this will be the last question for today, which is from the line of Mahesh from LIC Mutual Fund. Please go ahead.

Mahesh: Sir, export for this quarter is around INR 211 crores which is, I think, lowest in the last 9 quarters. You hinted that this could be the bottom. Going forward, this number will improve, maybe gradually, but there won't be any de-growth as such?

Harsha Kadam: Mahesh, let me correct you first. I did not hint that it will be the lowest quarter. It was hinted by one of the participants in the call. I said I hope it will be the last quarter, right? And I still hold that and that I am also hoping that this will be the last quarter. That said, yes, we are, as I said, looking at alternatives to see whether we can bring in more new businesses from other parts of the world to ensure that our export capacities will start to fill up. But yes, Q4 was the lowest that we have hit. Will it remain? I cannot say that. We will have to wait. This quarter will tell us where this is heading to. That would be my answer to you.

Mahesh: Sir, we have talked about INR 500 crores CAPEX for the next 3 years and we are through with 1 year. For the next 2 years, still we are holding that CAPEX guidance.

Hardevi Vazirani: That is right. We will be holding the CAPEX guidance.

Moderator: As that was the last question for today, I would now like to hand the conference over to Ms. Gauri Kanikar for closing comments. Over to you, ma'am.

Gauri Kanikar: Thank you everyone. Thank you for joining us today. If you have any further queries, please do reach out to me at gauri.kanikar@schaeffler.com. Have a good day.

Moderator: Thank you members of the management. Ladies and gentlemen, on behalf of Schaeffler India Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines.

(This document has been edited for improving readability)

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