SCHAEFFLER

Schaeffler India Limited · Pune · Maharashtra

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai-400001
Company Code: 505790

National Stock Exchange of India Limited
Exchange Plaza, C – 1, Block G,
Bandra-Kurla Complex, Bandra (E),
Mumbai-400051
Company Code: SCHAEFFLER

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Phone: +912068198464

Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcripts of Analyst/Investor Meet held on Wednesday, July 24, 2024.

Dear Sirs,

With reference to our letter dated July 24, 2024, please find enclosed the transcript of the Analyst/Investor meet held on Wednesday, July 24, 2024, for your information and records.

The same is available on the Company's website - Earnings Conference Call | Schaeffler India

Kindly take the same on your records.

Thanking you.

Yours faithfully,
For **Schaeffler India Limited**

ASHISH TIWARI

Digitally signed by ASHISH TIWARI
DN: cn=ASHISH TIWARI, c=IN, o=Personal, email=ashish.tiwari@schaeffler.com
Location: Pune
Date: 2024.07.30 15:06:22 +05'30'

Ashish Tiwari,
VP - Legal & Company Secretary

Encl.: As above

"Schaeffler India Limited Q2 CY'24 Earnings Conference Call"

July 24, 2024

MANAGEMENT: MR. HARSHA KADAM – CHIEF EXECUTIVE OFFICER, SCHAEFFLER INDIA LIMITED
MS. HARDEVI VAZIRANI – CHIEF FINANCIAL OFFICER, SCHAEFFLER INDIA LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Schaeffler India Limited Q2 CY '24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Gauri Kanikar. Thank you, and over to you, ma'am.

Harsha Kadam: Hello, Good Morning. A very warm welcome to this earnings call. And I am Harsha Kadam, the CEO of Schaeffler India Limited. And along with me is...

Hardevi Vazirani: Hello. My name is Hardevi Vazirani, and I am the CFO of Schaeffler India.

Harsha Kadam: So, let me begin by taking you through briefly our presentation, which is already put up to you people. So let me start with by moving to Slide 2. As a motion technology company, Schaeffler India Limited have always strived and are committed to ensure that we create and add value to all the stakeholders.

Now that said, customer being the most important stakeholder for us. I am happy and proud to share that in the second quarter, we have been recognized by many of our customers and some of them which you see here on the slide, starting with Escorts Kubota, particularly recognizing us for the best quality performance for the year.

Also, commendations coming our way from Mahindra Swaraj. This was appreciation for extraordinary support for supplier performance for the entire year. Also, on the aftermarket side of the business, we were recognized by Mahindra for the vendor-managed inventory efforts that we put in throughout the year. And last but not the least from the prestigious customer of Maruti Suzuki, we were recognized for deeply and closely working with on the design and development of products that go into the transmission application as such.

Rightfully, we will continue to keep customers at the centre of everything we do. And hopefully, we will win more awards in the future going forward. That said, I would like to now move on to today's agenda. I would like to talk a little bit about the economy and the industry, follow that by the business highlights and our business performance as such for the second quarter and the six months ending. Later, I would touch upon our financial performance for the second quarter and six-month year ending.

Now that said, let me move to the next slide, Slide number 4. Here, I would like to talk a little bit about the economy and the situation in the country. As you all know, we were on a strong footing in terms of growth and probably India is the only country that has been able to sustain a growth momentum. The Reserve Bank of India too has kind of revised the GDP at around 7.3%. This coming on the back of a good performance on the manufacturing sector as well as the industrial sectors. Although we did see some sluggishness in some of the industrial sectors, which I will touch upon in a while. Look at the automotive production in the country and it has been able to grow at a rate of ~6.8% on the passenger vehicles for the second quarter and has been a good performance from the automotive production as well.

Talk about the inflation, the CPI inflation has been moderated, which is very well in line with what the guidelines and the targets set by the Reserve Bank of India to contain the inflation between 2% to 5%, and that is where it is continuously hovering around. All these have kind of offered a favourable mix as enablers for the economy to ensure a sustained growth rate.

Now that said, I would like to move to the next slide where I would touch upon the core sectoral performances. And when you look at the industrial sector performances, as I mentioned, some of the sectors have seen a bit of sluggishness in the second quarter when compared with the first quarter, probably attributed to the pre-budget concerns that would come up. This could be just a pre-budget phenomenon, but I guess the next quarter will definitely tell us where this is heading.

So, look at the cement production or the coal production, both kind of slowed down a bit compared to the first quarter. But we saw that the energy generation or the electricity generation in the country actually started to pick up in the month of April and May, which clearly pointed to increased manufacturing activity in the country as such. That said, all are pointing towards a robust growth rate, sustained growth rate going forward as well.

I move to the next slide, which is more focused on the automotive sectoral performances. Here again, what we have seen is a very strong rebound on the 2- and 3-wheeler sectors coming on the back of the rural demand, which today constitutes almost 60% of the 2-wheeler production going towards the rural market, and that is creating a strong pull, and we are seeing a strong resurgence of the 2- and 3-wheelers.

Passenger vehicles, on the other hand, has seen a bit of moderation there. But I guess, again, this is to do with the pre-budget phenomena, hopefully, and we expect that this should pick up. The commercial vehicles, on the other hand, has also gone down in the sector. As you can see, as a sector in the month of April, May, and June, still at a lower level.

While on the other hand, the agricultural tractors, which was kind of at the lowest level has kind of bottomed out and started to see an uptick in the last 3 months. So, when you look at the numbers, particularly in the month of May and June, we see a stronger resurgence of the agricultural tractors probably coming on the back of the reasonably good monsoons and the good rainfall that is there. So, we believe that we are optimistic that the tractors would definitely come back in a much stronger way going forward.

I move to the next business highlights, as I talked about. So overall, how did we perform as Schaeffler India in the second quarter. I must say that we crossed a new milestone in the second quarter, which was - we were able to generate a sales revenue of INR 2,000 crores or cross the INR 2,000 crores mark in one quarter, which was from an earlier level hovering around INR 1,800 crores.

So, this was the first time that we have been able to cross the INR 2,000 crores, and I must say this is an important milestone that we have crossed, thereby registering a 12% growth over the preceding quarter and a 13.3% growth compared to the same quarter last year. So has been a reasonably good performance with a double-digit growth rate, which rightfully reflected in the financial performances or EBITDA, we were able to bring in roughly INR 385 crores in the second quarter, registering an 18.6% in Q2 2024, this was at 18.3% EBITDA in Q1 '24, resulting in a Profit After Tax, which also was ~12% - 12.2% as such.

We did have some challenges on the free cash flow, particularly coming on the back of the capex investments, which got capitalized in the quarter. The first quarter and the second quarter put together, got capitalized and hence, we see a negative cash flow. But definitely, there has been an improvement in the free cash flow compared to the first quarter and all efforts are on this direction to correct the picture in the succeeding quarters that we have and some areas of homework we still have to do is on the cash flow and the working capital management as such.

I move to the next slide, Slide number 9, as a motion technology company, our focus has always been on winning new businesses and continue to sustain the wins in every quarter. And here again, whether it is in the Automotive Technology area or on the Automotive Aftermarket area, the Vehicle Lifetime Solutions, as we call it, or on the Bearings and Industrial Solutions, we have garnered a lot of wins in the second quarter as well, predominantly coming from the IC engine space, leading to engine application products as well as some of the transmission products.

We have continued to sustain wins in our double clutch systems, which is a prestigious product for Schaeffler in India. We also garnered a lot of wins on the front-end auxiliary drives and in the commercial vehicle applications, and we will continue to sustain this win momentum as such.

Talking about the Vehicle Lifetime Solutions, again, the products which were launched in the OEM space have now started to come into the aftermarket space with appropriate packaging that are required for the applications. So that is something and our portfolio expansion continues in the Vehicle Lifetime Solutions.

Coming into the bearings and industrial space as well. We have won quite a few businesses, new businesses within the 2-wheeler space. Even the 2-wheeler applications, we have won businesses in the bearings business bearing as a product. And we continue to have some wins on our raw material sector business, the continuous process industry business as such, predominantly in cylindrical rollers, needle rollers and some tapper rollers as well. So, all in all, we have a holistic business win, not specific to one product portfolio, but a varied product portfolio, which helps us to sustain the balanced approach to the market thereby also ensuring that we optimally load our plants and the production capacity that we have.

With that, I move to the next item on the agenda, which is our financial performance on the back of this business performance. I did already mention that in the quarter, we achieved a sales revenue of INR 2,071 crores as such, which was a clear 12% growth over the preceding quarter and a 13.3% growth over the same quarter last year. But if one were to look at where did this come from. I would draw your attention to the key aspects part of the chart, which talks a little bit about the split between the business verticals. And as you can see, the Automotive Technologies registered a strong growth in the second quarter with 11.5% growth compared to Q2'2023, taking the six-month performance to 10.3% growth compared to the same half year performance last year.

Vehicle Lifetime Solutions on the other hand, was a little muted in the quarter. However, when compared to the preceding quarter, it posted a double-digit growth of 14.4%, taking the overall half yearly performance to 4.8% growth over the same period last year. Industrial, on the other hand, we have been having a strong run particularly in some of the industrial sectors where the tailwind is helping us to consolidate our positioning in the market. And we have been able to register a 17% growth when compared to the same period last year and a 15% growth over the preceding quarter, taking the half yearly growth to about 16.5%.

One other highlight of the quarter was the double-digit growth rates and the good performance that we have been able to register in our export business, the intercompany business that we call, we were able to grow the business by about 15% when compared to last year Q2. And over the preceding quarter has been a very robust and strong performance of 21%.

But overall, the half yearly period, as you know, the export business went down due to the geopolitical situations in Europe, and as a result now, we are seeing that at half yearly growth rates, we would be close to about 4% growth rate.

So, looking at this scenario, and I did talk about the balanced sales mix that we enjoy. And as you can see, the Bearings and Industrial Solutions, which was sitting at about 43%, couple that with the Automotive Technologies at 33% and the Vehicle Lifetime at around 9%. Our exports continue to be in the range of about 12% to 15% as such.

With this balanced approach, I move to the next slide to draw your attention to the earnings quality. And what you see is here, I did talk about the EBITDA, we have been able to register an EBITDA of 18.6%, bringing in about INR 385 crores into the system. And where did this come from - and as you can see below on the bridge, the gross margin improvement brought in about INR 86 crores. We did have some payouts that we had committed to do in terms of our employee cost, which was a little on the timing side, a little different than what it normally is and also some of the expenses that we have incurred in the process of our integration process that we have started to do as well.

Now that said, this has resulted in a much better Profit After Tax for the quarter. For Q2, we have been able to register INR 253 crores of the profit after tax, which is a clear 11.4% growth quarter-on-quarter and year-on-year growth of about 7%, taking the profit after tax to 12.2% for the second quarter of the year.

Moving on. I did touch upon the working capital. Our working capital has gone up in the quarter. And that is something that we are hovering around 20.2%. This is an area that we are now focusing on to get it under control and work towards improving this in the succeeding quarters as such.

Talk about investments. Our investments rate continues still to grow, although we were marginally lower when compared to the first quarter. We have come down to 8.4% of sales when compared to 9.4% levels that we were in the preceding quarter. However, this is purely based on the judicious and prudent investment mix that we are bringing into the country, looking, and taking cognizance of all the developments that are happening in terms of market demand around us.

So, all in all, I think the capex framework is well on track, no changes there whatsoever. Working capital and free cash flow for the quarter is an area where we notice that we still have some work to do, and we will keep the focus on these two parameters going forward as well.

With that, I move to Slide number 14, which gives a little more detail on how we are looking at. And as you can see here, the snapshot of all the performance indicators, while the revenue for the six months grows at about 11.3% and EBITDA margin hovering at 18.5%, taking the EBIT to 15.3% level.

Our sustained effort and focus on cost management with the number of measures that we have introduced within our operations, we will continue to shore up and try and deliver more value going forward as well. And this is the snapshot of our performance indicators for the second quarter and the six months ending.

With that, I also would like to share with you the consolidated financial results factoring in the KRSV Innovative Auto Solutions Private Limited, which is a subsidiary of Schaeffler India Limited, Koovers, as we call it for short. Now if one were to look at the Koovers numbers, it is small business right now, which generated a revenue of INR 35 crores in the second quarter and at six months about INR 60 crores.

But still, the financial performance yet to breakeven. However, all actions to scale up this operation and start to generate a positive cash into the business is something we are working towards. So, at a consolidated Schaeffler India Limited, Q2 sales revenue stood at INR 2,106 crores or INR 2,107 crores. As you can see, with an 18.1% EBITDA margin resulting in an EBIT of 14.9% and earnings before tax of 15.7%.

So, with that, I move to the next slide. That is my last slide, which summarizes the entire thing. So, we have been able to post a reasonably good double-digit growth in the second quarter for the sales revenue. As such, helped and aided by some of the tailwinds in some of the sectors, plus our intercompany sales, which is the export part of the business, which started to come back pretty good. And quality of earnings, we have been able to sustain with the cost management measures that we have put into our operations.

And we will continue to keep the focus on winning new businesses because that is what helps us to continue to ensure the top line growth momentum as such. And as a motion technology company, we remain committed to continue to create and generate value for all the stakeholders within the ambit of the ESG that drives our business operations.

With that, I come to the end of my presentation. I open this up now to Q&A. Over to you. Thank you.

Moderator: The first question is from the line of Mukesh Saraf from Avendus Spark.

Mukesh Saraf: Yes. My first question is on exports. We have seen very strong performance again this quarter. We have seen another sequential 20% kind of growth again. So, could you give some more colour on how we see this going forward? Because obviously, a few quarters back, we were facing some issues with global weakness, but have we kind of now gone beyond that? And are we going to continue to see further growth from here?

Harsha Kadam: Yes. Thank you, Mukesh, for the question. I would like to say that the two factors that is probably helping us to grow the intercompany sales business, one being the stabilization of the economy in Europe, which is obviously now with all the inventories getting cleared up, we see a demand resurgence coming back from Europe.

Now is it at the same level what it was 1.5 years back? Not yet. We will have to still continue to watch this. But definitely, we see now the upward trend, and it started to creep up. That is the first thing. Second is our own efforts from here within India that we are trying to get our products into newer markets, particularly in Southeast Asia have also started to give us some results. And both these factors put together have helped us to start to address the export market.

As I said here, I would still look at the exports market optimistically, but with a lot of caution because we still do not know the geopolitical situations, can always sway the business whichever way. So, we will continue to keep a watch on this while we continue to explore new markets to export our products.

Mukesh Saraf: Sure, sure. Any targets or any kind of a guidance we have on where we would want exports to be as a percentage of our overall mix, like we are still about 15%, but any, say, 2–3-year kind of a target number we have?

Harsha Kadam: Yes. We have always been hovering around in the range of 10% to 15%, and that is where we continue to hold. As you know, a lot of it is beyond our control in this business considering that this is very vulnerable to the geopolitical developments that happen around us. So that said, it is wise to keep it in a manageable level, and we will continue to operate around the level we are in today.

Mukesh Saraf: Right. Got that. And secondly, on the Automotive Technologies business, we are again seeing strong growth around 11%-12% growth there, while obviously, the underlying production has been, say, 6% kind of growth like you had highlighted in my presentation. Could you kind of call out, is there primarily content increase here for this outperformance? Or is there any market share kind of change as well that we are seeing?

Harsha Kadam: you answered the question yourself because yes, there has been content increase. There are multiple actions that we were trying to address here. One, you already touched upon definitely market share. So, we have bought some inroads in some of the specific sectors, and we have started to consolidate there as well. We also, as I showed already, we have launched new products in the quarter as well although the SOPs would come in a little later.

But every quarter, we do have new business wins, which have started to now come into series production. So that is helping us as well. And the third important factor is also some of the tailwinds in terms of some of the segments within the automotive sector, the demand would have gone up, which is enabling our product portfolio where we are strong to grow.

For one, we are already seeing the tractors as I talked about is recovering. We are very well represented in the transmission applications within the tractors, and we are seeing that as one of the tailwinds that we are enjoying. So, it is a multiple of factors that have helped us actually to try and ride the growth wave in the automotive sector today.

Mukesh Saraf: All right. Understand. Just last one. You had touched upon this in your opening comments on the employee cost. But at like INR 140-odd crores that we are at on a stand-alone basis, it seems quite high. We have never seen these kinds of levels and the Y-o-Y growth as well is quite high in this employee cost. Could you highlight, I mean, what exactly has driven this? Is it anything to do with the Savli plant or any bonuses extra that have been kind of disbursed this quarter?

Hardevi Vazirani: So, this is mainly timing difference. In the second quarter in April, we have salary increments as well as performance bonus, which is paid out to white collar employees. So, one thing is the timing difference. Second, as you are aware that we are expanding in Savli and Hosur. So there have been new recruitments which are taking place for the future growth. So, these are the two main factors. As we progress into the year, we will see that this percentage to sale, that is a relative increase will phase out.

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

Harshit Patel: My first question is on the railway business. Is our railways portfolio now fully localized? Or do we still import few products from parent or the sister concerns globally? Also, what was the share of railways within our overall revenues in the second quarter as well as the first half of CY '24?

Harsha Kadam: Yes. Thanks, Harshit, for the questions. So, to answer to the first part of your question, we have a large percentage of localization that we do here for the railways. However, there are still some products which we continue to import, and our localization plans are well underway, particularly for the railway sector.

We have been making some capex investments there to start to put production line to win those products, and those are well on track for us, as I am speaking. So, the second part of the question, how big is it for us? When you look at the industrial part of the business, the railways constitute roughly about 5% to 6% of the total business.

And overall, all the businesses put together about 3% of the total business is where we stand today. Yes, we are primarily focusing on the locomotive space, the metro applications, and the passenger wagons as such. The freight trains is an area where we still have to do some work, and we have to bring up some new products there.

Harshit Patel: Just a small follow-up to that. What was our Y-o-Y growth in this railways portfolio for this particular quarter?

Harsha Kadam: Well, if you look at the Q2'2024 over Q2'2023, our growth has been close to about 15% to 17% we have done.

Hardevi Vazirani: Yes.

Harshit Patel: Understood. Sure. Sir, my second question is, is there any update on the merger of Vitesco India with Schaeffler India? I think last time, you had mentioned that you will have to do some groundwork as well as due diligence. So, is there any progress on that front?

Harsha Kadam: Well, my answer to that question would be it is still too premature because the company has been acquired globally, correct? And we are still in the process of integration, which definitely is a long process.

It is not something that we can do overnight. So rightfully, in due course of time, you will start to get the update on what the next steps are and where this is going to go. But as of now, we are just integrating the company within the Schaeffler portfolio. The processes are getting integrated, the ERP process, the financial process, that is getting integrated. But the rest as it comes up, we will keep you updated.

Moderator: The next question is from the line of Mahesh Bendre from LIC Mutual Fund.

Mahesh Bendre: Just taking this question of Vitesco, you just mentioned that the integration process is on. So ultimately, the Vitesco India will be merged into Schaeffler India? Is this way things will happen?

Hardevi Vazirani: So, when Harsha mentioned that the integration is on its way, we were talking the global integration. That means globally, Schaeffler Group has acquired Vitesco Group. So that integration is going on. When we talk about India, we do not have still any plans that we will be integrating it legally. Whenever that news comes out, I think it will be publicly announced.

Mahesh Bendre: So currently, there are no plans of integrating Vitesco India into Schaeffler India?

Hardevi Vazirani: We await for the green signal, the right time has to come.

Harsha Kadam: Mahesh, let me say that we cannot share the plan as such.

Mahesh Bendre: Okay. Okay. Sure, sure. And secondly, sir, the capex during the quarter has been quite strong. I think we were talking about INR 500 crores of capex per year for the last 3 years, and we are halfway through now. So, when do you think actually the benefit of this will happen -- will get reflected into the numbers in terms of sales or any operating margin side?

Hardevi Vazirani: So, capex, you rightly mentioned that it is very strong. And as we had announced in 2022 that in 3 years' time, we will be investing INR 1,500 crores. So, all the plans are aligned to that. And we have seen incremental sales already has started coming, and we witnessed further growth in this quarter as well.

So, capex is to be splitted into three broad categories. One is that we are investing into new plants and buildings. Second is in backward integration. That means in localization of our components, which ultimately impacts or helps us in maintaining the margins to combat the inflationary pressures that is components. And the third part is into capacities for the finished goods. So, all the plans that we had laid out in 2022, we are realizing it well in time.

Mahesh Bendre: Okay. Sir, last question from my end. The export side, though, I mean, you sounded a cautious bit. So, I am just trying to understand these kinds of numbers that we have shown. I mean, going forward, next at least 2, 3 quarters. Will this number be very similar like what we reported?

Hardevi Vazirani: That's what we will be trying to.

Harsha Kadam: If one were to look at the earlier quarter's performance in terms of our export business, we kind of even touched the level of almost close to 16% to 18% at one point in time. But I guess that was the peak. It all boils down to the demand situation how it is in the European market, the American market. Yes, the geopolitical situation did cause a dent in terms of the demand.

But we are seeing now that some recovery happening. Is it at the same level as what it was before the geopolitical developments? Not yet. So, we will have to wait and watch, but we are definitely seeing some uptick, especially in the last 2 months, we have seen a strong resurgence coming back.

Hardevi Vazirani: To maintain the performance. However, we have high dependency on businesses in Europe, Asia Pacific and in other regions. And that is the reason we are cautious.

Moderator: The next question is from the line of Pramod Amthe from InCred Equities.

Pramod Amthe: So, first question is with regard to the working capital. If I had to look at your cash flow statement for the first six months, there seems to be a substantial rise in inventories and receivables. Is it -- how do you read it, is it more a reflection of market conditions? Or is it specific to Schaeffler, something that changed?

Hardevi Vazirani: So first, I will talk about inventories. Yes, inventories are slightly higher as a percentage to sales. If we see the quarterly trends of past year usually in June, there is increase. And this time increase is even slightly higher, 0.6% point of sales, it is higher than last year.

This is done in line with what we project going forward our business plus the transit times have increased due to various reasons in logistics, hassles that we are having regarding Red Sea and blank shipping and several other crises. So, we have seen that the transit times have increased by almost 20-25 days.

That is the reason that -- and this inventory includes the inventories which are in transit. We expect that in Q3, this will ease a little bit. And second aspect of working capital is receivable, where we have done some adjustment in payment terms in line with the market conditions.

Pramod Amthe: So, this is going to -- you mean to say that receivables will remain as it were with the new norms?

Hardevi Vazirani: Yes.

Pramod Amthe: Okay. And second one is with regard to the Passenger Vehicle Technologies. Even though there is still a debate about whether incentives will be given for hybrids or not. But if you look at from a Schaeffler point of view and the parents experience, how do you see the opportunity or a threat from hybrid technology? What is the scope to play there? And will there be a sharp catch-up for OEMs to do is there to then what will be the good or bad for Schaeffler?

Harsha Kadam: Yes. Thank you, Pramod. That is a very broad-based questions and I will try and answer it. So yes, multiple technologies do exist today. Starting with -- if you take the IC engines, internal combustion engines, which are on the one area, graduating towards tighter emission norms, not just the emission norms, but also in terms of what kind of fuel that is required from gasoline to blended fuels and ethanol. So that is coming in as well.

The good thing is Schaeffler globally has the competence. We already have the product portfolio to address this application, this side of the market. Talk about the other end of the spectrum, which is the electric vehicle technology. Here, again, we are well placed. We do have substantial product portfolio offerings at a system level, and that is something, even in India, we are now trying to capitalize upon with the new business wins that we have already secured.

So, the other end of the spectrum as well as we have been able to play the game. In between, you have some of our customers also bringing in hybrid technology, which is an IC engine coupled with the electric -- quasi electric products that go into the technology.

Here, again, we as Schaeffler, we are well positioned because we do have a number of solutions that go into the hybrid vehicle applications. So simply put to summarize, we have the bandwidth of the portfolio to play in the entire range of the applications that is emerging today.

So that is definitely not a concern area for us. What would be one of the challenges is the appropriate volume of the business that should be available in India for us to locally produce some of the products. So, until the appropriate economies of scale do not emerge, we will continue to make the products in the other factories, which continue to make this product in Europe or elsewhere.

We will bring them and start to feed them, which we have already been doing that to our customers, correct? So, from a competence capability, production is already in place, the entire range of spectrum of the product application. Are we doing all of it in India?

Not necessarily. Some of them we continue to import because the appropriate -- the optimum volume is not still there in the marketplace. So as the optimum volume emerges, we definitely would look at localization because localization has been an important part of our growth strategy in India.

Moderator: The next question is from the line of Divyanshu Mahawar from Dalal & Broacha Stock Broking Private Limited.

Divyanshu Mahawar: So, I just wanted to know about that the new -- upcoming new emission norms like CAFE and BS-VII. So how do you see the content for vehicle? Is it going to be going upwards or it would remain as it is now?

Harsha Kadam: If I have to answer this, the content per vehicle a few years back, we were in a double-digit range of euros per vehicle, considering that we were a component supplier in the automotive space. We have started to move towards a subsystem level and even a system-level capability in suppliers.

Why do I say that? Now if one were to look at the hybrid technology that comes in, it is no more a component, but you are going to give a subsystem, which would be coupled with an electromechanical device, and that is something we have started to do.

Talk about the electric vehicles, we are moving into the system level as well, whereas the complete E-axle with the motor is going to be given with the controller in place as well. So, this is a clear strategy for us that how do we play the game at the component level yet start to move value offerings at a system level.

Now what happens when you move to a system-level offering is your content per vehicle, obviously, would go up because the value of the offering multiplies. So, from a two digit, you would be moving to a 3- and a 4-digit levels. And that is the strategy that we are embarking on, and we have started to see successes there. Of course, that would call in a lot of competence and capability buildup, investments to be made in which we are doing it as part of our growth strategy.

Divyanshu Mahawar: And secondly, sir, I want to just know about that in the industrial side, you are coming with Industry 4.0. So, what kind of growth or what kind of opportunity you are seeing in the market and how this industry is favouring this product that you are launching under Industry 4.0. And any new products you are going for addition in Industry 4.0?

Harsha Kadam: So, there are two aspects to the Industry 4.0 from a Schaeffler India perspective. One is what do we offer as a product or a service there. And I must say that we are already actively working with our customers in the area of digitalizing our offering there. So, we offer digital solutions in the -- in the way the machine condition monitoring devices that our customers use.

So, we offer solutions there, which are digital in nature, which are run using algorithms, which can be viewed and managed on your smartphones, which the customers have. So, there is a high level of empowerment that it has brought into the maintenance team within our customers' premises.

We also have lubrication devices, which are very smart, which conform to the Industry 4.0 environment. So that is something we continue to build upon. So, we have off-time, which is one other solution that we offered as a sensing device, which senses the health of the equipment and starts to relay back that data with algorithms then kick in to analyse the cause and give early warnings to the end user.

Now what is the value this brings into our customers is to ensure minimum downtime of their machines and very planned stoppages so that they can actively plan and structure their maintenance operation -- in their operation in the area. So that is one aspect of it.

On the second aspect of it, where we are actively engaged is also in managing some of these businesses for our customers. And this is helping us to understand and learn more about their applications, particularly this is being done in continuous process industries, be it a steel mill or a cement production.

So, we are actively engaged with the customers on their shop floor, wherein we manage the operations for the customers in terms of machine uptime. So we not only give our products, we not only introduce our digital technology there, but we also ensure that we service the equipment and machines there for our customers, which is a huge value add for the Schaeffler team because we learn a lot from the applications, which further goes back into improving our Industry 4.0 offerings to the customer.

So, in a nutshell, there's a lot of digitalization that is already happening with it. And if one were to look at our manufacturing plants, and that's another area where we have started to apply the Industry 4.0. We have started to create the digital twins in our manufacturing plants, which we have now started to optimize and see how we can optimize the efficiencies and the productivity within our plants, which directly contributes as a value to become more cost competitive in the market, to be more leaner in the market. So thereby we have the competitive edge when it comes to. So, in all the areas as you can see, our customers end as well and within our own plant as well, there is a very active introduction of Industry 4.0 practices and technologies, both being put into place.

Divyanshu Mahawar: And sir, one last question. It is a general question. So, if you look at the digital solution that we are providing, so is that digital solution can be compared to any of the industry irrespective of the product that they are only using Schaeffler products? It can be fitted to any other -- some sort of any other product that they are using.

Harsha Kadam: Thank you for this very good question, Divyanshu. This is brand agnostic, what we give.

Divyanshu Mahawar: So, it applies to all the brands also.

Harsha Kadam: So, this is, I would say, brand agnostic. It does not matter which brand or product is in the application.

Moderator: The next question is from the line of Anish Rankawat from Haitong Securities.

Anish Rankawat: So, my first question is on the exports. Could you throw some more light on the export or the end market demand situation in Europe. Now this is coming from a context that Schaeffler AG has given a bit of a revised guidance, and that is largely driven by the continuing weak performance in the Bearing and Industrial Solutions division. And your comments about improvement in demand is a little counterintuitive. So, is it that the India contribution to global when we look at exports is increasing? And a related question, what would be Southeast Asia's contribution to total exports?

Harsha Kadam: Thanks, Anish. Very good question, I must say, and I like the counter intuitiveness that you've pointed out, too. Well, let me put it this way. So rightfully, as I said, it is not like we are going to have our entire business export oriented. That is not the strategy at all.

We definitely have some part of our business, which is export. Now to your question based on the guidance that has been issued by Schaeffler AG. And you see there are contradictions here in what I am saying. If I look at it this way, ultimately, it is all about for being cost competitive.

And from India, we are definitely cost competitive on many product lines, which we make here. So rightfully, in a very, very sluggish demand situation that is visible in Europe today. So obviously, cost competitiveness definitely would also become an important criteria, not just to deliver the top line, but also to ensure to deliver the bottom line.

So, my presumption here is that, yes, the demand has gone up for two reasons. One, because we are cost competitive as well. So rightfully, people definitely would want to source more from India. We see that happening with exports in the other markets as well. If I have to take one of the sectors, the wind sector, again, we have seen huge traction already in terms of the demand as 80% of the wind equipment manufacturers, what they produce in the country, 80% is exported out of the country. There, again, we have seen a strong resurgence of demand as well. Although we do not consider that as our export business, we do give it to the local manufacturer who in turn exports. So, these are indicators, which tells you that, yes, India's cost competitiveness definitely is going a play, key role for the export business to sustain.

Now that is the main reason that is propelling the growth. I am not in a position to confirm and say that. But we believe that, yes, that can be one of the contributing reasons for the uptick that we have seen in the last few months.

To your next part of the question, which is on Southeast Asia. Well, I am not at liberty to reveal the percentages as such. But I can tell you that our concentrated efforts in focusing on that part of the region, which hitherto, we were not focusing upon. We certainly have increased. We have started to do, try, and seize every opportunity that we find in the Southeast Asia region to grow our exports to that side of the world.

Anish Rankawat: My second question is on Koovers. So, what would be your scale of road map? And secondly, by when would it be contributing to the operating performance at consolidated level? Any qualitative comments will be helpful here.

Hardevi Vazirani: So Koovers is basically a start-up business. And any start-up business in general would not have a breakeven for at least three years as we try to expand it across all geographic regions within India. So, when we acquired Koovers, it had only small presence in south of India. And in a matter of two years, we plan to expand it across whole of India. And to that extent, the funding and all requirements are being fulfilled from Schaeffler India Limited side.

The company is growing steadily. And Q2 versus Q1, we registered over 40% growth in sales of Koovers. So breakeven, we do not even as per our plan -- we do not expect before three years.

Anish Rankawat: Understood. And last point, if I may squeeze in, the E-axle program. Anything to add in terms of new order wins and the update on the localization? And secondly, it is expected to start from second half of CY'24. Is it on track?

Harsha Kadam: To answer to that question on the E-axle. The new business that we have secured is well on track. And the customer is validating the samples that are already being provided to them, yes. That said, it is a matter of time. And we are well on course there to deliver what was committed to the customers. And we also have not seen any changes in the customer launch plan. So, we are well on track there.

To the other part of your question in terms of new business wins, our efforts is there. We are working with many other electric car manufacturers, yes. we will definitely keep you posted as we will have more business wins in the future as well.

Moderator: The next question is from the line of Saif Sohrab Gujar from ICICI Prudential AMC.

Saif Sohrab Gujar: Yes. Just on the Bearings and Industrial Solutions. So, when I see this quarterly number or even the half yearly numbers, so we have around 16% - 17% year-on-year growth, right? So, in this being commodity looking to be constant, so this would be purely volume growth, or this has some value for pricing-led growth also and just a follow-up on this is, what would have contributed to the segment's growth? And how is Wind doing?

Harsha Kadam: So, to answer to your first part of the question, Saif, it is purely volume-led growth that we have seen in this quarter, yes. And to the second question on where we are seeing the growth, rightly, if one were to look at the automotive applications, we have seen the engine applications, the products that we give, the bearings that we give in the engine applications have definitely seen very robust growth in demand in the second quarter, yes.

We are also seeing on the industrial side, the power transmission sector, even railways, we have seen good demand or supplies or sales that we did in the raw materials sector, not to mention the wind sector as well, the renewable energy sector. All in all, we have seen good demand traction coming for bearings across the industry sectors as such. Yes, where we definitely still are optimistic of seeing some better demand is on the tractor segment, which has now started to kind of come back on the back of a good monsoon. That is another area. And we definitely believe that this too should come back in a much better way.

Moderator: The next question is from the line of Bharat Sheth from Quest Investments.

Bharat Sheth: Sir, I have two questions. One is that you said that our export to Europe has improved, despite, I mean, our European situation has improved, or it is due to our cost competitiveness and going ahead how do we see? That is the first part. And second, to get railway is a big opportunity, we are just it is a 3% of total revenue. So, what are we doing? I mean, in that segment, so to take a major sales?

Harsha Kadam: Thanks, Bharat, for the questions. So let me take the first part of your question, which is on the export part of the business. Rightfully, as we do not control the market in Europe, for the exports that we do out of here, we supply the products to our sister companies in Europe. That is how it operates, the model.

That said, so the entire market and the end customer management is handled by the -- our European team sitting there. So clearly, what we have visibility is to the order inflow that comes into our system. And we are seeing that definitely, the uptick is there in the last two months, a better uptick. I would not say it is a strong uptick because we have seen stronger numbers in the earlier years in terms of the export, yes.

So, what we have visibility is to the order inflows, and we are seeing definitely an uptick on the order inflows. We are clearly pointing to the fact that, yes, there seems to be some demand resurgence in the European market, plus, of course, also our cost competitiveness, definitely should be helping us because otherwise, why would the orders flow into our system. So that will be my answer to your question, first part.

On the second part on railways, yes, we are seeing a transformation within the Indian Railways happening. Now I would like to split here the metros and the Indian Railways. If you see now every city, the metro network is expanding, and investments are flowing in.

And we are well positioned, very well positioned in the metro applications as such. Within the Indian railways, if one were to see, we have a very strong foothold in the locomotive applications, predominantly as there is a lot of electrification that is happening and railways is well ahead in terms of electrification of its entire locomotives, where they have moved away from diesel to 100% electric locomotives.

And electric locomotives obviously would need traction motors, which are very heavy-duty motors, which need a special kind of bearings called insulation-coated bearings, and we do make these products locally in India. And so, their oppositions, we have been able to consolidate very well, and we are investing in more capacities for this application itself.

Talk about passenger wagons. Yes, we supplied the axle boxes and to the gearbox application as such. We do have products there which we have been supplying and that is something we will continue to bring new products, a few of the products, which are almost concluding the testing and validation phase. As the Indian Railways launches, high performance or better performing trains, obviously, we will have the next generation of products that we will be bringing in as well.

So, freight trains are an area where we are not so strongly present, but that is an area where we are waiting for the next shift in technology to happen, and we will be definitely capable to play the game there as well with the next range of products that we have for the freight cars.

So yes, as the market is transforming, our portfolio of offering is also changing here in the railway application, and we believe that it is a sector important sector for us to continue our growth story.

Moderator: The next question is from the line of Rishi Vora from Kotak Securities.

Rishi Vora: Congratulations on good set of numbers. Sir, I would just like to get some sense on the non-bearing part of the business as in today, how much would be roughly the contribution of that business? And within that business, which will be the key components? And just over the coming years as multiple powertrain solution emerges in India for passenger vehicle, how will this business as per you evolve? Is there any significant tailwinds or headwinds to a particular product, which you would like to highlight? So just some sense on the non-bearing part of the business.

Harsha Kadam: So, let me take the first part of your question on the non-bearing part of the business. And on ballpark number, 60% of our business is bearings and 40% comes from non-bearings. What comes in the non-bearings predominantly, these are products that go into the IC engine application for the passenger cars and the commercial vehicles.

The other application is in the transmission area wherein we talk about the clutch -- as the transmission clutches that we manufacture. So predominantly, these are the two broad areas where our non-bearing products going, yes.

So let me start with the transmission side. As you know that we manufacture a wide variety of clutches from a diameter ranging from 200 millimetres going up to 430 millimetres. So, we have a wide portfolio there, and we have single clutches, we have double clutches.

So rightfully, there is a variety of clutches, there are clutch release mechanisms that we manufacture, which we also supply. So, there is a plethora of products that are already out there for the transmission applications, and we enjoy a pretty comfortable position in terms of market share as well.

Now coming to the engine application. There are a host of products that go into the IC engine, whether it is in terms of the cam followers that we supply or the valvetrain mechanism, the belt and chain drives or the front-end auxiliary drives. So, we do make a lot of products or the integrated starter generator mechanisms in front. So, a lot of products that go into the IC engines or passenger vehicles and commercial vehicles, we do supply today.

Of course, I did touch upon the next technology that is catching up in India is the hybrid vehicles. There again, we do have offerings in terms of planetary gear systems, which we have started to localize now and locally produce them. We have shipped our mechanisms that we offer, which kind of is an intermediary product that goes into an IC engine, coupled with a hybrid mechanism of a hybrid powertrain.

So, we are offering there as well. Talk about the electric vehicles, yes, as I said, we have secured a business win for a 3-in-1 E-axle system wherein we supply the electric motor with the gearbox and the controller or the power electronics, as we call it, all the three going in. And that is something the start of series production is scheduled towards the end of the year.

So, all in all, we have the bandwidth and capability to play the game in non-bearing portfolio, as you can see, is pretty wide. How is Schaeffler transforming here in India? Yes, I have already talked to you or taken you through the hybrid application and the motor application. The next generation of technology, obviously, is going to be hydrogen fuel based which is hydrogen fuel cell. The competency to use these products in the automotive application already exists in Germany.

It is a question of the appropriate timing as the market warms up here, we bring those offerings as well. So that is the second part of the question that I have tried to answer. Hope I was able to answer your question.

Moderator: Ladies and gentlemen, we will take that as the last question. I would now like to hand the conference over to Ms. Gauri Kanikar for closing comments.

Gauri Kanikar: Thank you, everyone. Thank you for joining us today. If you have any further questions, please reach out to me at gauri.kanikar@schaeffler.com. We may now conclude the call. Thank you and have a good day.

Harsha Kadam: Thank you.

Hardevi Vazirani: Thank you.

Moderator: 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)

Registered Office:
15th Floor, ASTP (Amar Sadanand Tech Park),
Baner, Pune – 411045, Maharashtra
Contact Details:
Investorsupport.IN@schaeffler.com
Website:
www.schaeffler.co.in
CIN: L29130PN1962PLC204515