

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

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

30/10/2024

Dear Sirs,

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

Phone: +912068198464

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,
VP - Legal & Company Secretary

Encl.: As above

SCHAEFFLER

“Schaeffler India Limited Q3 CY'24 Earnings Conference Call”

October 24, 2024

**MANAGEMENT: MR. HARSHA KADAM – MANAGING DIRECTOR AND
CHIEF EXECUTIVE OFFICER**

**MS. HARDEVI VAZIRANI – DIRECTOR, FINANCE AND
CHIEF FINANCIAL OFFICER**

MS. GAURI KANIKAR – HEAD, INVESTOR RELATIONS

Moderator: Ladies and gentlemen, good day, and welcome to the Schaeffler India Limited Q3CY'24 Earnings Conference Call. As a reminder, all participant lines will be in 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. Thank you, and over to you, ma'am.

Gauri Kanikar: Good morning, everyone, and welcome to Schaeffler India Limited's earnings conference call for the third quarter and nine months ended 30th September 2024. Today, we have with us 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.

Thank you, and over to you, Mr. Kadam.

Harsha Kadam: Thank you. Good morning. Good morning to all of you.

Hardevi Vazirani: Good morning.

Harsha Kadam: So, I'm Harsha Kadam, the MD and CEO of Schaeffler India. And I would like to now take you briefly through the presentation, and I hope you all are referring to the file that was already uploaded. As always, I would like to start off my presentation by sharing the recognitions that we have received from our esteemed customers and some of the business partners that we engage with.

I am on Slide 2. In the quarter, we were recognized by five awards. To start with, the first one was from Toyota for Zero PPM award, which means that in the quarter for the year 2023, whatever we have supplied so far were zero defect products. And this is something that we cherish. An award coming from Toyota means a lot to us. And this was mainly for their parts that we supply to their engine and transmission.

The second award was from another esteemed customer, Skoda Volkswagen. And Skoda Volkswagen recognized Schaeffler for completing the Eco Edge Assessment 2024 and which was organized jointly with the Confederation of Indian Industry in September 2024. And this was in the area of sustainability in our operations. And the Eco Edge Assessment evaluates various environmental, social and governance parameters integrated into Schaeffler's operations. This recognition signifies that Schaeffler's sustainability initiatives are regarded as exemplary within the Skoda Volkswagen's network of value chain partners.

The other award, the third one in line, is from a new customer called ElinWG Group. This was awarded for the outstanding performance and execution of the project to start the business by developing bearings at good speed. And Elin is a Voith Group company based in Austria, and they are into manufacturing motors and generators for the wind application as such.

The fourth award that we got in this quarter was from the CSR Network from one of our plants under our Schaeffler Technical Enhancement Program, which is the skill development

program that we run under our corporate social responsibility initiative. And the Hosur plant received the award in recognizing the excellence in CSR and ESG leaderships for the skill development initiatives, which has been creating a significantly good impact in the community that we operate in.

The last award that came in the quarter was from the Institute of Supply Chain Management and Schaeffler India has been named as one of the Top 30 Supply Chain Champions by the Institute of Supply Chain Management, underscoring the company's resilience, agility and strong customer focus. And through their evaluation process, assessment on the performance of over 400 companies was carried out and the digitalization initiatives that we have driven in our supply chain process is something that was exemplified. And as Schaeffler, we have been recognized for that. Also, the integration of the digital ecosystem that we have created both on the backend and the frontend is something that has been well appreciated and recognized by ISM.

I would like for now to throw some light on the economy and the industry, and I'm on Slide 4. So, talking about the GDP rate - growth rate in India, while many of the external agencies have been rating the India's growth story on the GDP, the Reserve Bank of India's Monetary Policy Committee also continues to forecast around 7% - 7.2% growth rate for the Indian economy in the fiscal year '25 as well. Although it has moderated a bit from the previous numbers of 7.2%, coming down to 7%, but then it's still one of the fastest-growing countries comes out clearly and the growth momentum continues to be sustained.

When one looks at the Index of Industrial Production in 2024 due to the healthy run of the metal products, the electrical equipments and also the furniture industry, while on the other hand, we did see some softening on the mining industry, mainly due to very heavy rainfall during the monsoons. So overall, the growth in the manufacturing as such, the basic metals did pretty well. Computer electronics doing well. So overall, mining was just about 4.8%. manufacturing sector grew by about 3.6%, whereas the energy or electricity around 7%, 7.5%.

Inflation on the other hand, when the CPI inflation did moderate, but the food inflation continues to be a point of concern in the country, and which hit an all-time high during the month of September. So, the YoY inflation rate based on the all India Consumer Price Index number is at 5.49% for the month of September. So, it still continues to remain within the Reserve Bank India's tolerance band of 2% to 6% as such.

On the other hand, when one looks at the automotive industry and the production numbers, that unfortunately has seen some sluggishness in the production. Overall production degrowth in the third quarter in the automotive space was about 2.5%. The YoY degrowth in the third quarter for the passenger vehicles, if one were to look at it, which is the largest volume contributor in the automotive space is at 0.7%. While on the other hand, the commercial vehicles degrew by 16% in the quarter and tractors certainly showed a bit on the uptick with about a 3.2% growth.

Moving on, one looks at the core sectoral performance. And what you see is if one were to just look at the quarter and here, the September numbers are still to come in. Hence, I'm just

looking at the 2 months of July and August. And what you would see is the softening even in the cement production numbers when compared to the first quarter or the beginning of the year.

We have seen more or less status quo on the steel production numbers, whereas mining, I did mention, has seen a drop due to the heavy rainfall and monsoon in the mining areas as such. Energy, on the other hand, continues to be on the increase, clearly indicating that the manufacturing and the rest of the services economy continues to still do well.

I move to the next slide, slide 6, which is on the automotive sector performance. And here, we see some different pictures unfolding. When one looks at the 2 and 3-wheeler production numbers in the last quarter, certainly, the production numbers registered a strong growth of 13.9% in the quarter. And even the electric vehicle sales have certainly grown in the third quarter due to better penetration and higher adoption rate as such.

While on the other hand, the passenger vehicles, I already talked about, if one were to look at the July, August, September trend, it has slowed down a bit. And certainly, it is not even at the level of the first quarter of this year. Now indications are that we will continue to see some sluggishness in the passenger vehicle segment in the quarters to come as well.

Commercial vehicles, on the other hand, also has tried to show some uptick in the month of September, but it is still at very low levels when compared to the first quarter. So Q2 and Q3 have registered lower numbers of production in commercial vehicles. Tractors, on the other hand, saw an uptick, as I said, close to about 2.5% growth.

And what you see here is the months of July, August, September, registering roughly about 90,000 tractors being produced in the country per month and which has been significantly much better than in the previous quarters of this year as such. But still at an annualized level, the tractor production is still 3.5% lower than the same period last year.

With that, I move to the business highlights, and I move to Slide 8. And the snapshot of how we performed in the quarter. Looking at the sales revenue that we have generated in the quarter, we registered a flat growth over the preceding quarter, but still have posted a good double-digit growth over the same quarter last year with a 12.1% improvement in our sales revenue.

Obviously, while the automotive sector as such did show some sluggishness in the demand, on the industrial sectors, we did see some very strong traction coming primarily in the renewable energy, wind energy sector, the railways, the two-wheelers, the raw material sectors have all helped in kind of trying to manage the challenges that we faced in the quarter.

On this backdrop of a challenging quarter, we were able to yet deliver a sustained profitability performance with improved performance on the working capital side, which helped us to bring in better margins into, and the cash flow definitely, as you can see, has improved, registering a positive cash flow of INR 100 crores coming into the system in the quarter. And we ended the quarter with an EBITDA of INR 382 crores coming into the system as such with an 18.5% EBITDA margin and the profit after tax stood at INR 247 crores at 11.9%. Our capex strategy

remains a long-term strategy, and we have consistently continued to invest every quarter and Q3 was no exception.

We continue to invest judiciously in the areas where we believe the growth opportunities are visible to us, and we will continue to follow the strategy going forward as well. So all-in-all, it was a challenging quarter, Q3. However, as Schaeffler, we as a team were able to demonstrate resilience and ensure that we try and sustain the growth momentum, which is something that we are highly focused upon.

That said, I move to Slide 9. And as always, our successes and our growth story continues on the back of the consistent and sustained new businesses that we capture in the market. And yet again, in the quarter, Automotive Technologies, as you can see, we were able to garner a lot of new businesses, predominantly in the clutch applications and the dampers and the clutch release systems, particularly in the transmission application as such and both in the commercial vehicles and some of it in the passenger vehicle segment as such.

Talking of the aftermarket business, which we call it as the Vehicle Lifetime Solutions. Here, again, the new products that we launched in terms of steering and suspension have begun to show good traction in the marketplace, good acceptance level in the marketplace and some new business wins for the front-end auxiliary drives, timing kits, the wipers and the lubricants as well continues. And we will continue in our strategy in the aftermarkets to continue to bring more products as the vehicles come back for servicing. So, our portfolio expansion as a strategy remains strong.

Moving to the Industrial Solutions and Bearings and where bearings is the main stay of the portfolio here. So, we have garnered some new business wins in the two-wheeler space as such. Plus, we have also garnered strategically strong projects, which we have won in the raw material sector and both on the spherical roller bearings as well as on the cylindrical roller bearings. So, all in all, it was a strong quarter in terms of creating a pipeline of business continuity, which bodes well for the succeeding quarters as we come into those quarters as well.

I move to Slide 10 and where I would talk about the financial highlights going forward. So, on Slide 11, what you see is the total revenue growth. As I said, the QoQ was at 0%, more or less at the same level, but the YoY growth was at about 12.3%. Now where did this growth come from? As you can see to the right, the table that tells you the Automotive Technologies over the preceding quarter grew only 0.8%, but over the same period last year, grew at about 10.7%.

The Lifetime Solutions, we did have some challenges in the quarter, but it is a pretty contained and localized matter. And as you can see, we registered a negative 2.3% over the preceding quarter. But over the same period last year, we were able to post 7% growth. Bearings and Industrial Solutions, on the other hand, we had some good run in some of the specific sectors, which I have already mentioned, have registered a 5% growth over the preceding quarter and a 13% growth over the same period last year. While on the other hand, our exports business still continues to remain at a lower level than what we have expected. And as you can see, it

registered a 14.6% negative over the preceding quarter. But over the same period last year, it is still at 17%.

So, all in all, at an annualized 9-month period, when you look at it, Automotive Technologies, we have grown by 10.4% over the 9-month period last year. The Vehicle Lifetime Solutions at 5.5%, Bearings and Industrial Solutions at 15.2%, a strong growth and the export business growing at 7.5%. So, this has helped us to shore up and sustain the sales mix that we have.

Now what you see here is Bearings and Industrial Solutions shows an increase from the previous quarters and registering about 45% of the total turnover. One of the reasons here is our reclassification and reallocation of all the bearings into Bearings and Industrial Solutions, which we did the structuring already a couple of quarters back. So overall, I must say reasonably good quarter, considering the challenges that we have faced all through the quarter as such.

I move to Slide 10. And here, I would like to talk about the financial performance and the earnings quality and what you see is the EBITDA. So, as I did mention earlier, for the Q3 of 2024, we were able to bring in INR 382.8 crores into the system, registering an EBITDA of 18.5% which definitely was a little lower compared to the preceding quarter of 18.6% and even compared to the Q3 of 2023, which was at 18.9%. However, the YoY growth in absolute numbers, as you can see, has been at 9.7%.

And where has this come from? The gross margin improvement has brought in better EBITDA, while we did have some expenses that we had to do on the employee cost and some of the other income. So, all in all, put together a much better EBITDA when compared to the same period last year, which resulted in a profit after tax, as you can see, at INR 247 crores with a PAT of 11.9% for the quarter in Q3.

I move to Slide 13, which talked about our working capital management. And here again, our working capital as a percentage to sales actually went up in the third quarter. Over a 9-month period, as you can see, it stands at 19.8%. However, within the quarter over the preceding quarter, we have been able to sustain or bring it down marginally as well.

I talked about the capex spend. And in the quarter, what you see is we have invested INR 207.6 crores into our operations as such for various reasons in terms of future products that we are localizing here in India. And well, if there is an increase in the quarter, it is more of a timing issue as some of the equipment had to be booked into the system, and that's what you see. What is important to note is our capex as a percentage of sales is comparatively a much higher level when compared to last year, which was hovering around average 7%, we are now in the range of 8 - 8.5% as such.

On the free cash flow, which was the bane for the previous 2 quarters, we have been able to get our hands around and focus on the cash flow into the organization. And as you can see, we were able to bring in INR 100 crores into the system in the quarter, and we are expecting the trend to continue in next quarter as well so that we continue to register a robust free cash flow into the company as such.

I move to Slide 14 and just to give you some key performance indicators and on a comparative level. So, I did mention that the revenue growth in the quarter Q3'24 compared to the same period last year was about 12.1% shown YoY. And if you were to look over the preceding quarter, it was status quo and flat, yes.

I did touch already on the EBITDA numbers that we are coming at in the 9-month period, we have generated an EBITDA of INR 1,020 crores as such with an EBITDA margin -- sorry, INR1,106 crores with an EBITDA margin of 18.5%. This gets us to an EBIT margin of 15.2%, which is 0.8 percentage points lower than what we had registered last year, same period.

Yes. I did already talk about the profit after tax and the capex. So, the cumulative capex for the year 2024 so far 9-month period is at INR 536 crores compared to the INR 410 crores that we spent last year as such. Overall, a reasonably good quarter, so to say, in spite of all the challenges that we faced in terms of the weakening demand in some of the specific large volume sectors, yes.

I move on to Slide 15, which brings in the consolidated financial results of both Schaeffler India Limited stand-alone as well as KRSV Innovative Auto Solutions Limited and the consolidated picture. So, I already talked about Schaeffler India Limited stand-alone results. So let me spend some time on KRSV Innovative Auto Solutions Private Limited.

For the quarter, even KRSV registered a pretty strong growth at INR 43.9 crores, which was a clear 20-odd percentage points better than the preceding quarter. So, we clearly see the growth momentum picking up in this new venture as such. And over a 9-month period, the revenue stands at about INR 104 crores. However, on the profitability, we still had to break even and there are clear action plans drawn up.

We are right now on expanding the reach in the marketplace and the connect with our customers, and that's the key focus area is to make our presence well pan-India. We have started to open up many more dark stores and hubs so as to enable the customers to access the products on our platform within the shortest time. So hence, we are on an expansion mode here. So, we will definitely get to the situation where you will see start to post profitability even from this business.

So consolidated Schaeffler India numbers, the revenue stands at for the quarter Q3'24 stands at INR 2,116 crores and the 9-month period at INR 6,096 crores with an EBITDA of 17.7% and 17.9% for the 9-month period. And the EBIT margin going down to 14.3% because of the impact of KRSV yet to break even. So, with that, the earnings before tax, before exceptional items stands at 15.2% in the quarter and the 9-month period, 15.6%.

I now move to Slide 16, which is my last slide. And in summary, it was a challenging quarter in terms of weakening demand, particularly from the passenger vehicle segment. We have seen that happen and some of the specific sectors. However, some of the sectors like 2-wheelers, the wind energy, the raw materials and railways definitely had a very positive traction.

So, we were able to navigate through the challenges. And that also tested our agility, which the team came together to manage it pretty well. And our domestic business definitely performed

better than the export business, and that is the proof of the resilience that we have been showing in the domestic market.

The quality of earnings, we were able to sustain with the continued focus that we have kept on managing the cost as well as the countermeasures that we have put in place to remain competitive. So, with that, we will continue to focus on new business development, which has always been our imperative.

And the working capital management and cost management, which definitely is a priority for us even in the quarter that we are in now the last quarter of the calendar year. And as a motion technology company, we definitely continue to keep the focus on generating and adding value to all the stakeholders that we are responsible for.

With that, I come to the end of my presentation. Thank you.

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

Mukesh Saraf: My first question is on the e-axle order that we had won last year. And I think the -- what we had stated is that the revenues will start flowing in from second half this year. So just trying to understand, have we started commercializing that product? And what's the status of that orders?

Harsha Kadam: Thank you for the question, Mr. Saraf. And as you know, the homologation and validation process is done entirely by the customers. And as I'm speaking now, a number of vehicles are being tested already on the road all across the country. And in every region, nook and corner of the country, our customers are running the test.

Until all the validation and homologations are completed, the vehicle would definitely not get launched rightfully. Yes, the initial plan was the vehicles to be launched, but now I hear it's going to be launched sometime in the first quarter of 2025. So, I guess we will have to wait.

Mukesh Saraf: Got that. Understood. And second question is, I think on 1st October, now the parent has now merged Vitesco. So, anything that you would want to comment on what's the plan of action here for Vitesco India Limited? Is there a plan of integrating that, merging that with Schaeffler India? Anything that you can comment on?

Harsha Kadam: So yes, the functional integration of Vitesco globally as Schaeffler AG is completed as of 1st October. Rightfully, we'll be able to comment on the timelines only once we get a clear direction from headquarters, from Germany as such. Surely, you will get to read it and hear about it as it unfolds.

Mukesh Saraf: Right. Just last question on exports. We have seen some sequential decline in exports. You had also mentioned that in your comments. So, can you give us some outlook there on exports? Because obviously, capex side, we are continuing our strong capex, which also includes some plans for exports. So, could you kind of outline what we can expect over the next year or so in terms of exports?

- Hardevi Vazirani:** So, considering the exports for the quarter, we saw the drop only in Europe region. And right -
- so the group also announced in its pre-closing call for Q3 that Bearings and Industrial Solutions has seen some market environment challenges and that the industrial sales of Europe has seen some challenges. So, it is mainly the Europe market. We had put our efforts on Asia, China, Americas as well, where we did not see any drop. The drop mainly came from Europe.
- Mukesh Saraf:** Right. Any sense you have on the kind of -- I mean, because of the kind of order book we have in Europe, when can we start improving -- when can we start seeing an improvement in European exports?
- Harsha Kadam:** I guess we'll have to wait and watch how the market unfolds in Europe. As you know the market is sluggish currently.
- Moderator:** The next question is from the line of Harshit Patel from Equirus Securities.
- Harshit Patel:** Sir, Automotive Technologies and Industrials and Bearings, these are our 2 largest segments. Could you give us an approximate idea on the margins or the margin difference between these 2 segments?
- Hardevi Vazirani:** Unfortunately, I think that level of information we do not discuss.
- Harsha Kadam:** We do not discuss.
- Harshit Patel:** Sure. Understood. But at least directionally, both the VLS as well as exports, both these smaller segments would be making substantially higher margins than these 2 large ones? Would that be right?
- Harsha Kadam:** Sorry, Harshit, if you can repeat that question again?
- Harshit Patel:** Sure. Sir, our 2 smaller segments, namely Vehicle Lifetime Solutions as well as exports, both these would be making substantially higher margins than the 2 large ones, the BIS and the auto technologies.
- Harsha Kadam:** You answered the question yourself. And the aftermarket business definitely brings in better margins. And the export, obviously, because of the foreign exchange effect would definitely be much better margins as such as well.
- Harshit Patel:** Understood. Sure. Sir, my second question is, we had won that 2-in-1 e-axle project that you just mentioned as well from an EV customer last year. So subsequent to that, are there any other system-level contracts that we have won in the EV space so far post that?
- Harsha Kadam:** We are actively working with a number of customers, and we have the capability to give at a component level or a subsystem level or even a system level offering. We have those competence in India. However, what we find is the fragmentation of the technology in the market space. There are customers who are focused on pure EVs. There are customers who are focused on hybrids. And there are customers who are still focused on IC engines. So, this has its own set of challenges when it comes to investments because you obviously need that scale of economies, which will come if there are enough volumes.

So, from a competence and capability point of view, we are already there. We have started engaging appropriately with customers. Even our hybrid technology products, we have been working very closely, and we have backed some good new businesses as well there in the hybrid technology area, yes. So, the capability exists. We are working with customers and there are enough opportunities that we are already on the table with the customers with whom we are already engaged.

Harshit Patel: Sure. Sir, just lastly on -- is there any update on the Hosur greenfield capex? Are we on track to start the production early next year? Also, which products would be manufactured here? I mean, what would be the product range segregation between Pune plant and Hosur plant?

Harsha Kadam: Yes. So, the Hosur's greenfield project is on track as scheduled. And certainly, we will start to manufacture early next year. That is as planned. What we want to start off is by producing products initially at a component level there, primarily for the transmission application, which is clutches again, that will start off. And we will definitely scale up the plant with all the new products that we are trying to bring in, not to mention the EV as well because the system level would require motors, it would require gearboxes. So rightfully, we have the wherewithal and the equipments there. It's a question of having the right volumes in the marketplace so that we can start to make those investments in new greenfield projects as such.

Moderator: The next question is from the line of Manish from Nirmal Bang Securities Private Limited.

Manish: I have only one question. Your comment around the Q3 has been soft in terms of demand. So, in the coming second half of the current fiscal, how do you see the demand trend to especially in the passenger vehicle as well as the tractor segment?

Harsha Kadam: Yes. Thanks for the question, Manish. And normally, as you know, October, November are the months when due to festival season, the passenger vehicles and the two-wheelers, these are the sectors that tend to peak. What we are not seeing that -- but we are not seeing that happen this year, unfortunately. Fundamentally, the reason is with a lot of push sales that was done in the preceding quarters, the dealers, the retailers and the wholesalers are saddled with very high inventory levels on the passenger vehicles.

The inventory level is probably close to 80 days. And so even if the sales numbers would be very high in the quarter, that is this quarter, October to December, primarily it would be due to the liquidation of all the inventory that is lying. So, will the production numbers pick up? Now that is something we have to wait and see, yes. Because unless the inventories start to go down, the production wouldn't definitely be on track as such. So, we believe that it is still going to be a little muted quarter when it comes to vehicle production numbers. And we anticipate this is going to happen for the next quarter as well as the first quarter of the calendar year is always start off on always a lower note. So, what should have happened should happen in this quarter. And if this quarter, the production numbers don't pick up, it's going to be a little late.

Manish: And what about tractor?

Harsha Kadam: Sorry, I didn't get that, please.

- Manish:** Tractor, I'm talking of tractor.
- Harsha Kadam:** Tractor, yes. So, tractor, we have seen the last 3 months, the production numbers have slowly started to incrementally go up, which is a good sign. Obviously, it's evident that the good monsoon that the country has had is enabling the production numbers to start going up. However, there are other factors within the tractor segment, which is still liquidity, cash availability, the finance availability that is going to determine how quickly it's going to pick up. So, we believe it's going to grow slowly, but definitely, the indications are that tractors would be on a slow growth path as such.
- Moderator:** The next question is from the line of Rishi Vora from Kotak Bank.
- Rishi Vora:** My first question is regarding the Industrial & Bearing segment. Sir, can you give us some color on how some of the segments did during the quarter, especially railways, wind and anything else you would like to call out?
- Harsha Kadam:** So, thanks for the question, Rishi. And let me start off with the industrial segments where we are very strong, and that's the wind energy as such. We had a strong traction and growth in the wind energy production numbers of the gearboxes and so on. So that has helped us to grow much faster in the quarter as such. Overall, we are seeing a good traction coming from the wind energy. Even the railways, for example, did reasonably well in the quarter. Then the raw material sector due to some of the infrastructure projects.
- So obviously, there have been quite a lot of investments that our customers have started to do and the projects that they execute enable us to grow in the raw material sector, which is the core metal industry. So, we have seen some good traction coming from these sectors, which have definitely pulled up the bearing business as such. Two-wheelers is another one, which we have seen some good strong traction there.
- Also, our clear focus on the aftermarket within the industrial space did pretty well, I must say. And we have continued our focus in introducing new partner end user program that we launched 6 months back. We have started to consolidate those initiatives with our distributor community. And as such, this is starting to pay off, and we are seeing the results. So, the distribution business too has registered a very strong growth in the quarter. Even at a 9-month period, we believe things have started to improve.
- So, whether it is over the preceding quarter or the same period last year, Q3'23, our distribution business has done pretty exceedingly well, I must say. So, all in all, there were some sectors which did very strong. Where we could have been better, the performance could have been better from a demand situation is in our Power Transmission segment. And the Industrial Automation segment, we could have been better. We still have not seen a strong uptick like we have seen in some of the other industrial sectors.
- Rishi Vora:** Understood. Sir, our auto and industrial bearing segment this quarter has grown by 10%. So, is it fair to assume that the industrial part of the business would have done better than that?
- Harsha Kadam:** Yes. The industrial part of the business definitely has done better.

- Rishi Vora:** Understood. And just on exports, right, while you did call out that the European market was a drag this quarter. But at least in terms of end consumer segments, can you give us some color on which are the key end consumer segments for us in all these geographies? And over there, where -- in which segment we are seeing demand weakness?
- Harsha Kadam:** So, Rishi, I want to clarify here that our export business, we will have no visibility to the end customer, so to say, because what we produce here, we ship it out to our sister plants and sister facilities across the world. And they in turn handle the sales that happens to the customers. So, my visibility stops at my sister company.
- Rishi Vora:** But at least by the type of bearings, which we supply, we'll have some idea about the end consumer market, right?
- Harsha Kadam:** Upright, it's not so easy because if you were to take a spherical roller bearing, it can go into a cement industry, it can go into a steel industry, it can go into a power sector. So various sectors. So, it's a little difficult.
- Rishi Vora:** Understood. And just last question. If we -- if you look at your 9M performance, our EBITDA margins have kind of declined by 80-90 bps part of the reason would be the consolidation of Koovers. But how should we look at margins going forward? Are there tailwinds for margins to improve from here? Or where are we seeing some bit of pressure on margins?
- Hardevi Vazirani:** So, if we look at 9 months of this year vis-à-vis 9 months of last year, we have seen in EBITDA margin a dip of 0.5% points. And within this, the employee benefit expenses have contributed by 0.3%. But within this 0.5%, 0.3% is employee benefit expense, which is mainly because of the inflationary pressure that is the increment, the personnel increments, which were given out this year in line with the market.
- And the second reason is there are some onetime incomes which were booked last year in terms of tooling income, in terms of service income, which we don't see this year coming because those are all one-time, one-off incomes that were booked last year. So, these are the 2 main reasons of the EBITDA change.
- Moderator:** The next question is from the line of Mahesh Bendre from LIC Mutual Fund.
- Mahesh Bendre:** Sir, despite a challenging environment, business environment, we have grown double digit almost across, I mean, business segments as well as geographies. So, given the current situation where the auto industry is actually struggling for the growth, given the diversified nature of our offerings, is it fair to assume that we will keep outperforming the market growth over the next few quarters?
- Harsha Kadam:** I think that's for you to draw the conclusions, but our performance over the last quarters tells that, yes, our growth numbers are definitely ahead of the some of the sector growth or the industry growth. So, if you take the index of industrial production is hovering around 4.5% to 5%. But our own industrial performance has been much better than that. Same is the case with the automotive sector, which is almost half the business that we operate in. While the industry

has remained -- if you look at passenger vehicles at a 9-month period has grown in single digits, but we still continue to do double-digit growth.

Our endeavour has always been to continue to grow in double digits. Yes, for that, we will have to be very agile and try and get on to more business opportunities that we keep our focus on so that we could ensure a continuous pipeline of business flow that happens irrespective of the changes and the vagaries and the dynamics in the marketplace. So that definitely helps us. One other aspect is as Schaeffler, we have a good balance between our bearing's portfolio and non-bearings portfolio.

So, bearings, as you know, is about 60% of our business and non-bearings would be roughly about 40%. So, this too, the business mix and the portfolio mix definitely helps us to kind of try and sustain at a company level, if not at a sector level. Some of the sectors could underperform, some of the sectors definitely outperform. So, we have been able to balance this out well. And I don't see any reason why we cannot continue to deliver the double-digit -- sustained double-digit growth rate.

Mahesh Bendre: Sure. And sir, about the Hosur plant, which will become operational next year, some of the products you mentioned about the clutch and other EV parts, those are not currently as of now manufactured for India in our basket as of now, right?

Harsha Kadam: Are you talking about the new plant or the existing plant?

Mahesh Bendre: New plant.

Harsha Kadam: Yes. See, we are continuing to localize a lot of our products to be produced in India, more so in the automotive space. And so clutch is no exception. So, the new plant, definitely, we will continue to bring in the new products as well. Also, with the capacity constraints that we have ran into in our existing plant where there is no more space to bring in more additional machinery. So, the new plant is going to help us to complement the demand -- increased demand that we see even in our existing portfolio.

Moderator: The next question is from the line of Mayank from AM Investments.

Mayank: I have first question regarding the 9-month growth rates, if you could provide for the railway, wind, two-wheeler segments?

Harsha Kadam: Two-wheeler and which sector was that?

Mayank: Railway, wind, two-wheelers, auto aftermarket and maybe you can give the overall breakup in terms of the end markets that pulled.

Harsha Kadam: All I can say, all the 3 sectors that you touched upon at the 9-month period, we definitely have registered a very strong growth.

Hardevi Vazirani: It's a double digit.

Harsha Kadam: It's a double-digit growth coming from all the 3 sectors, railways, two-wheelers, I would say, even raw material, the core metal industry sector and the wind energy as such. Distribution in the quarter, I talked about the aftermarket, industrial distribution. In the quarter has registered a strong performance and still at an annualized 9-month period, it is still at a single digit, but we expect we'll continue to keep the focus to ensure that the distribution part of our business, which is a very important part of our growth strategy continues to be in the double-digit growth rate.

Mayank: Okay. And particularly on the wind side, sir, how is the market both in overseas and India, we had seen some instalment due to the Chinese competition. So how is it?

Harsha Kadam: Yes, if you look at the market, a large part of the market for the wind equipment manufacturers was predominantly Europe, Latin America and U.S. With all that is happening in Europe, with the 2 wars, ongoing wars and with all the impositions of sanctions, yet we see, I guess, all the inventory levels that were sitting there has all been now moved up.

So, we have seen a strong resurgence in the demand. Obviously, in spite of what is happening there, the geopolitical development, I guess people are finding ways how to continue to execute the projects and -- so we are seeing a strong demand both for the wind equipment manufacturers as well as for the gearbox manufacturers.

The good thing is at Schaeffler, we have a very strong presence globally with these esteemed customers and the same flows into India as well. So, we are able to leverage the relationship and the engagement level that we have established in Europe as well with these customers here in India as well. That certainly is helping us.

Talking about the Chinese competition, there are a few that have started to come into India. Here, again, some of them have started to set up manufacturing base. But right at this point in time, they are still very small. We'll have to wait and watch how that competition would develop actually.

Mayank: Okay. And lastly, sir, I mean, 9 months in this quarter, could you just categorize -- could you differentiate between volume growth and value growth?

Hardevi Vazirani: Unfortunately, not, Mayank.

Harsha Kadam: I don't think we can give that information, sorry.

Moderator: The next question is from the line of Deepesh Agarwal from UTI AMC.

Deepesh Agarwal: Sir, my first question is, you have mentioned the weakness in exports is due to Europe. Can you help us understand how is the inventory levels out there?

Harsha Kadam: Are you talking about the inventory levels in Europe?

Deepesh Agarwal: Yes, for your product. So, is there a destocking?

Harsha Kadam: Yes. Unfortunately, as you know -- as I said earlier in the previous -- when the question was asked, we do not have the visibility of either the end customer nor the stocks that they carry there. Our role ends once we ship the material out, right, based on the order books that we get. So that's where it stops. So, I'm afraid I don't have an answer beyond that.

Deepesh Agarwal: Sure. And sir, when you are looking to grow exports in Southeast Asia, where are we in that journey? How large that business can become? Can it become a similar size to your European exports in a few years?

Harsha Kadam: Difficult to tell for one, because the portfolio of the products that we make, which Europe needs, we see that either the volumes are not there for some of the products in Southeast Asia because the players, the customers, the design of equipments are all different, yes, that is one challenge. Two, also, when you look at sector level, you will find some of the sectors are very different. You find two-wheelers is a very strong sector in Southeast Asian market. That is something we are also trying to see can we now start to enter those markets as such. That's an evaluation that we are trying to do.

So, it has a little bit of a different demography when compared to the European market. So yes, we are making sincere efforts to get into the Southeast Asian market. We have seen some successes already in terms of getting new businesses for our exports within the Southeast Asian markets. I think the efforts have to -- we have to keep continuing on this journey to secure orders and wins for us to ensure that we try and derisk or balance out between the West and the East.

Deepesh Agarwal: Sure. And sir, lastly, what would be the road map for the turnaround of Koovers? By when do you expect it to turn around? And till then, what is the cash support, which it may look from Schaeffler in terms of loss funding?

Harsha Kadam: Yes. Let me start off by answering and then Hardevi can contribute as well. So, as you know, Koovers was a very clear strategic acquisition, knowing that it is an e-commerce platform, which is a very different model of business than what we have been doing already. Yes. And moreover, the acquisition per se itself, it was a start-up company. So, 2 things are different.

One is the business model and second is the setup of Koovers as an organization. So, it being a start-up, it needs to be run as a start-up if we have to make this a success story. Currently, our focus is on scaling up the operations and expanding the footprint, which we are actively working on to increase the reach as well as the depth of market reach by appointing a number of dark stores and hubs across the country.

As you know, Koovers was a start-up predominantly focused only on 2 cities when we acquired Bangalore and Chennai. And now from there, I'm happy to say that over the last 1 year since the time of the acquisition, we have expanded into almost close to 12 or 13 new cities wherein we have started to now set up dark stores, and we have also set up some hubs so that we have a hub-and-spoke arrangement.

We are now building up the organization structure there. So, we are now augmenting the appropriate functions to enable and facilitate the growth that we wanted to happen. So

rightfully, this requires a different approach altogether than the regular business that we do. And Hardevi, do you want to add?

Hardevi Vazirani: Yes. And I mean, all of us are aware that any start-up business requires 3 to 4 years' time to break even. So, in our business plan, we had planned that breakeven on earnings will be end of 2026. We are still keeping this projection intact. So, they will be starting to generate their own cash in 2027 onwards.

Moderator: The next question is from the line of Nirali Gopani from Unique PMS.

Nirali Gopani: Sir, my question is on the capex. So, if I remember correctly, in the beginning of calendar year 2022, we had announced a capex of INR 1,000 crores and revised it to INR1,500 crores. And if I sum up the capex until now, I guess we have crossed that INR1,500 crores mark. So how should we look at this number going ahead?

Hardevi Vazirani: So, this year, we will realize most of the growth relevant and localization relevant capex. And next year, we will step back a little bit and ensure that we realize all the benefits for which the capex has been -- capex spend has been done. So next year, we will slow down a little bit. So, INR 1,500 crores that we have announced, we have realized that from '22 until '24, rather slightly over that. And next year, we will slow down a little bit on capex spend.

Harsha Kadam: Nirali, if I may add also now yes, we did declare that we will be spending INR 1,000 crores over the next 3 years and we revised it to INR 1,500 crores. But you must also factor in that there have been considerable business wins that we have been getting. Take, for example, the Tata or the e-motor axles that we have won. Now the e-axle project that we won was not envisaged in the year 2022 when we made that announcement. And accordingly, and appropriately, we have to make some additional investments because of the new business wins. Hence, you see the numbers going beyond what we estimated.

And when you say INR 1,500 crores, it's an estimated number that we keep in mind, but there could be changes depending on the business needs and requirements that would come up, additional investments or as we said, there could be a scaling down as well going forward depending on the business needs. So that's how -- so we definitely will remain agile and flexible here when it comes to investments.

Nirali Gopani: That's great. So, if I understand correctly, the part of this capex would have been for capacity expansion, partly for localization or to say, improve our efficiency. And when you say that next year, we'll see a little bit of scale down and wait for the results to come on the capex, which has been done. So how should we as investors look at this happening, say, from the numbers point of view? Or any directional guidance that you can give on the same?

Harsha Kadam: So Hardevi said that we're going to be kind of judicious and watch the market, the business needs and then accordingly adjust our investment pattern. It goes without saying that whatever we have already investments that we have already made the realization of that, they have to start delivering and our focus will continue to remain on the investments that we have already made, how do we ensure that these are fungible that we can use it better leverage the capacities that we have already put.

So, the focus would remain on ensuring that the commitments that we made when we got the investments is something that we delivered to. So, this is going to be the priority going forward as well. Of course, if there is a new business win, which would warrant some new investments to be made, we will definitely make that.

Nirali Gopani: Right. Just one last question. What would have been the investment for our Hosur plant?

Harsha Kadam: Around roughly approximately about INR 300 crores.

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

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

Moderator: On behalf of Schaeffler India Limited, that concludes this conference. 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