SCHAEFFLER

Schaeffler India Limited · Pune · Maharashtra

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Mumbai-400001
**Company Code: 505790**

**National Stock Exchange of India Limited**
Exchange Plaza, C – 1, Block G,
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Mumbai-400051
**Company Code: SCHAEFFLER**

31/07/2023

**Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcripts of Analyst/Investor Meet held on July 27, 2023.**

Dear Sirs,

With reference to our letter dated July 22, 2023, please find enclosed the transcript of the Analyst/Investor meet held on July 27, 2023, for your information and records. The same is available on the Company's website - Concall Transcripts | Schaeffler India

Phone: +912068198464

Kindly take the same on your records.

Thanking you.

Yours faithfully,
For **Schaeffler India Limited**

ASHISH TIWARI

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**Ashish Tiwari,**
VP - Legal & Company Secretary

Encl.: As above

“Schaeffler India Limited
Q2CY23 Earnings Conference Call”
July 27, 2023

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

**MR. SATISH PATEL – DIRECTOR OF FINANCE & CHIEF FINANCIAL OFFICER**

**MS. GAURI KANIKAR – HEAD, INVESTOR RELATIONS**

**Moderator**: Ladies and gentlemen, good day and welcome to Schaeffler India Ltd, Q2 CY23 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 '*' then '0' on your touch-tone phone. Please note that this conference is being recorded.

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

**Gauri Kanikar**: Good morning, everyone. Thank you for joining Schaeffler India Ltd.'s Earnings Conference Call for the second quarter and six months ended 30th June 2023. We have with us from the management today, Mr. Harsha Kadam – our Managing Director and Chief Executive Officer and Mr. Satish Patel – our Director of Finance and Chief Financial Officer.

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

**Harsha Kadam:** Good morning to all, my investor friends, I welcome you to this Earnings Call today of Q2 2023. Let me take you through the presentation first and I would appreciate and request you to refer to Slide #2.

Today I would be taking you through the economy and the industry, throw some light on the business, how did we do in the second quarter and six months ending 2023. After which I will take you through the financial highlights for the same period. And then talk a little bit about our future drive towards ESG and what we are doing there.

I move to Slide #3 now. Let me start by talking a little bit about the economic situation:

We believe India still remains the bright spot in the world economy. All the necessary appropriate indicators are showing that we are on a good track as one of the fastest developing economy in the world.

Six months back IMF had issued a GDP of 5.9% for India which got revised two days back to 6.1%. The World Bank still holds the GDP for India at 6.3%. When you look at one other important indicator which is the Foreign Direct Investments that are coming in, we have record inflows of FDIs coming in, in the last two quarters. Of course, in the second quarter there was a bit of a drop but nevertheless it is still at an all-time high.

What we are seeing is also the clear focus and drive by the government in the areas of Make In India or be it the PM Gati Shakti Projects or the extension of the PLI schemes into other sectors. Even enabling the exports to go up as well as liberalizing the FDI norms. So, we see all reforms happening on all the fronts. So, that said we believe that the strong growth would continue in India.

I would now throw light on automotive production:

Please pardon me for the misrepresentation of the bar graph there. While what we are showing is the percentage over the same quarter last year, the way it has been visually represented as incorrect, so pardon me for that.

What you see in the automotive growth as well, we had some mixed bags. When you look at the passenger vehicle segment, the segment as a whole in Q2 was down 6% compared to the preceding quarter, but it was up 7% compared to the same period last year.

Commercial vehicles on the other hand too, which was down 13% over the preceding quarter actually has slowed down a bit, it was down -2% when compared to the same quarter last year.

Some recovery, we are able to see is in the two-wheeler sector where over the preceding quarter we have seen a 12% jump in production of two-wheelers. And it remains flat at the same level as Q2 of 2022.

Talk about the index of industrial production and what we see is good growth in the cement production, steel productions in the country; obviously riding on the back of the infrastructure drive and push which the government is clearly focused and investing in. That said, cement production grew almost 6.2% compared to the same period last year. Steel production grew in double digits at 12% over last year. And coal production, is lower than the preceding quarter, but definitely strong growth of 11% compared to the same period last year.

Power generation on the other hand for the first quarter end and the beginning month of the second quarter was down. However, we have seen some uptick in the month of May; June numbers are still to come in here. So, the core industries growth in Q2 was 4.3% that is registered across the country. And the half yearly level at about 5.9% growth is what we are seeing.

I move to the next slide which is throwing light on the automotive sector performance:

Here what you would see - I just talked about the two and three-wheelers. As we can see the two and three-wheelers have been having a flattish growth rate when compared to the last year same period; commercial vehicle is at 2.4% compared to the same period last year and passenger vehicles still showing a 10% growth over the same period last year. Tractors on the other hand still remains at about 9% on comparative levels. So, we have seen some softening in the commercial vehicles sector owing to the price increases that have been initiated in the marketplace as well as the technology changes pertaining to the BS VI Phase II which have been implemented.

I move to Slide #6, and which is where I have been talking a little bit on business highlights:

Let me take you through to Slide #7 which gives the summary of our performance in the second quarter. To sum it up in the second quarter, automotive technologies continued to show a strong growth despite some subdued market conditions in some of the sectors. We have also seen a strong growth in our automotive aftermarket on the back of more network penetration that we have done as well as expansion of our product portfolios that we have seen.

On the other hand, industrial business we have seen some uptick in some of the sectors, particularly wind which has been languishing. We have seen some recoveries in the month of June in terms of demand coming back pretty strongly. And we have seen some uptick even in the two-wheeler sectors, which has helped the industrial business continue on its growth path.

We also continue on our journey of investments into our plants, in terms of capacity expansions. So, we recently inaugurated the Savli Hall 2 wherein we will be bringing in more localization of more products that are going to happen in this plant as well, as well as our Hosur Greenfield project which continues and is progressing well.

We have seen also some good demand on the domestic business in terms of some of the sectors, even the raw material sectors have seen pretty strong demand uptick there. While our own exports, we saw some moderation coming in due to the situation in Europe as is prevalent today.

On the journey of ESG, we have started on this journey and while we are on this journey, we are now being getting recognitions which I will share in a while on some of the projects, one in particular being the water conservation projects which we have started to now initiate across other locations as well.

So, all in all we had a challenging second quarter, but I must say that we have managed the businesses pretty well in terms of securing the low hanging wins as well as at the same time we look forward to the second half where we believe that there is still going to be some sluggishness in terms of global demand, but the domestic demand uptick, if it were to sustain, we would be in a better position here as well.

To sum it up:

On the sales growth we were able to bring in INR 1,829 crore on to the top-line which is 4.6% higher than the same quarter of the previous year and 8% better than the preceding quarter of this year. That resulted in an EBIT margin of INR 294 crore coming into the system. And we have been able to sustain and hold the EBIT margin at 16%, which is at the same level as the Q2 of last year. This led to a Profit After Tax margin of 13% bringing in INR 237 crore and it remains at the same level in terms of the percentage of margin that has come into the system.

Talk about the free cashflow, this was one of the strongest quarters for us where we were able to bring in INR 109 crore into the system in this quarter, which is comparatively higher, almost 37% better than the same quarter last year and compared to preceding quarter, the preceding quarter was the very low quarter which you will see in the next slide, as I move to Slide #8.

On Slide #8, I also want to highlight that our sustained good performance is the result of our strong customer engagement activities in terms of business identification and business conversions that we stay focused on along the year. So, just to throw a light on some of them in the automotive technology area we have been able to secure new business wins for the passenger vehicles for the wheel bearings on some of the new models that are getting launched as well as some of the light vehicle clutch systems and the medium and heavy commercial vehicles, heavy duty clutch systems where we have secured beyond 280-millimeter dia clutch business which we have resulted into series productions, starting of going forward now.

On the automotive aftermarket front as well, the recently launched battery for the two-wheeler market was introduced. We have now started to expand the reach of this product across the breadth of the country. We have gone into now launching it into two other states as well. In addition to that of course we have started to add on new products conforming to the BS VI norms as the vehicles are coming to a maturity level for vehicle parts replacement. And we also look forward and continue to penetrate into new markets as well as bringing more new products as we see enough opportunity in the automotive aftermarket space.

Talking of the industrial business, here again we have secured quite a few business wins, be it in the railway sector or be it in the packaging machinery sector or some of it is also in the robotics sector that we are able to secure, not too left far behind, we have also secured bearing businesses in the electric two-wheeler segment as well. So, that said our focus in working with our customers at an early stage, getting involved at an early stage, engaging with them right through the development process continues.

Moving on, I move to Slide #9, just to throw light on the two-wheelers battery that we introduced under the Schaeffler TruPower brand. We have focused a lot on bringing out performance and value creation for our end users as well as at the same time we make sure it brings in longer life in terms of the technologies that we have used in terms of the purity levels of the contents that go into battery making as well as long light terminals that are one of the most corrosive regions within a battery. We have been able to focus on ensuring that we offer a better, superior product with better performance quality as well.

I move to Slide #10, to throw some light on the expansion of the industrial production capacity at Savli. We have added another 10,000 square meters of production space additional, the picture on the right which is encircled is the new building that was inaugurated in the month of June. And the hall is now ready to receive the machineries which have started to flow there. Some of the key processes that we are in investing in are the heat treatments and the grinding processes as well as we are focusing on sector such as the wind energy, heavy industries and the railway sector, so products that we are going to manufacture here is going to cater to these sectors. Some of the products are spherical roller bearings and also the taper roller bearings which would be made in this new hall that we have just inaugurated.

That said I move to the financial highlights now and throw some light, I would move to Slide #12:

As I did mention the total revenue generation in the second quarter of this year was INR 1,829 crore which was 8% better than the preceding quarter and 4.6% better than the same quarter last year. Now where did this come from - I draw your attention to the right side of the chart wherein our year-on-year growth was backed by good domestic demand. The automotive technologies business as you have seen compared to last year's grew almost by 10.3%. And the automotive aftermarket we were able to deliver almost close to 24% growth compared to last year. Whereas the industrial was down -2.3% fundamentally contributed by the slowdown in the wind segment in the Q4 of last year and Q1 of this year. And our exports as I already said have softened and moderated and was down by -3.5%.

However, when you look at the six-month picture compared to the same period six-month last year, our automotive technology business, we have still posted 15% better than the same period last year. And the automotive aftermarket was 21% better than the same period last year, while industry was down 5% and export was up 3%.

I draw your attention to the revenue bridge now and last year in the same quarter of Q2, we brought in INR 1,749 crore onto the top-line. But this quarter as I said we have brought in INR 1,829 crore. If I were to look at the split of where the revenue generation has happened, INR 697 million or INR 69.7 crore came in from the autotech space. The automotive aftermarket bought in INR 35 crore and industrial is still down marginally and export is down marginally.

We have always been saying that our beautiful balance between the industrial and the automotive space helps us to manage, to post better performances to rejig of strategies going forward as well. And you will see it again here with automotive technologies contributing 41% of the sales mix, industrial contributing 34%, export contributing 15% and automotive aftermarket contributing 10% of the sales mix.

I move to Slide #13 and here I would like to talk about the quality of our earnings, and I must say that in spite of a challenging quarter with some of the macroeconomic situations, headwinds that we were facing our earnings qualities still remained resilient and we were able to show that resilience in our performance.

So, just to throw light on the EBIT, we brought in, in the second quarter was INR 294 crore which was definitely 8.7% better than the preceding quarter wherein we had brought in only INR 274 crore. And as we can see it compares year over year on the same period last year, 7.3% growth resulting in an EBIT margin of 16.1% which is definitely better when compared to the Q2 of last year which was at 15.7%.

So, where does the EBIT margins come from and when you look at the bridge below, you will find the volume development or the increase in our sales revenue contributed almost INR 56 crore to the bottom-line. And we did have some one-time employee cost as we are expanding and our CAPEX expansion, we have to recruit more employees coming into the system, so you see which was not there in the quarter of last year. And then some of the depreciation cost and we do have some other income cost in terms of our spend that we have incurred due to some of our branding activities and some other expenses that you see.

Overall, I must say a very strong performance on the EBIT at INR 294 crore and sustained to keep the EBIT margin at 16.1%, resulting in a profit after tax of INR 237 crore in the second quarter which is 8.2% better than the previous, the preceding quarter and a 5.1% better profit after tax than the same period last year.

And moving on, I would like to move to Slide #14 to throw some light on the working capital and our CAPEX spend. As we can see we did some corrections in our inventory levels in the last quarter of last year which spilled over into the first quarter as well. And I must say that we have been managing pretty well on our working capital levels. And working capital to sales as a percentage we are at about 19%, which we believe is the optimum level of working capital that we want to remain at, to ensure better serviceability to our customers.

In terms of our CAPEX spend we had said that we have increased our CAPEX to percentage of sales to 6% to 7% levels, last quarter. We continue to sustain the same growth and we continue to invest in our capacity expansion projects even in the second quarter investing close to INR 135 crore in Quarter 2 alone.

Look at our free cash flow and what we see is one of our strongest performances in Quarter 2, compared to the preceding quarter you know we were able to bring in almost INR 109 crore as compared to INR 80 crore compared to the same period last year, Quarter 1 we were very low, we had a negative performance on the free cash flow at a year-on-year level. So, we have improved by 37% in terms of free cash flow performance.

I move to Slide #15 now to just explain a little bit on the indicator. So, to sum it up, I refer to Q2 2023 which is the first column and then draw your attention to look at the six months 2023 as well. So, I have already talked about the Q2 2023 revenue numbers as well as the financial indicators. Let me talk about the six-month period and as you can see the revenue, end of half year is INR 3,523 crore as against INR 3,300 which was there last year same period, which is a clear 6.2% better performance than last year.

Talk about our EBITDA, our EBITDA was INR 671 crore compared to INR 636 crore last year and the margins we continue to keep it at 19% as such. On the EBIT, at a half yearly level, INR 565 crore as against INR 534 crore with an EBIT margin of 16%, resulting in earnings before tax of INR 612 crore compared to INR 563 crore last year, with an EBIT margin of 17.4%.

The Profit After Tax at a half-year level, we are at INR 456.7 crore compared to INR 432.9 crore and we sustain a profit after tax margin of 13%. As I have said CAPEX increase is visible here at a six-month period, we have so far invested INR 253 crore as against INR 216 crore last year. And I already touched upon our free cash flow performance has been strong free cash flow in the system in the second quarter of this year.

With this I would like to now talk a little bit about our journey on the ESG. And I move to Slide #17 wherein what you see is the sustainability roadmap which we are pursuing. And we have a clear long-term commitment to get carbon neutral with clear short-term goals as well.

Now as Schaeffler India, we have taken up eight targets under sustainability which are visible on the slide here. So, the first target is on energy efficiency and where we have to get energy efficiency gains at an annualized gain till 2024 at 4 GWh. And we also want to ensure that we have entire chain becomes climate neutral by the year 2040.

And all suppliers too, our target is to get 90% of the production materials that we source from our supplier have to be from sustainable processes and for that effect we have already completed the self-assessment last year. We will now pursue to take this to the next higher levels.

In terms of fresh water supply, which is the fourth target, we have taken a target to consistently reduce 20% freshwater supply consumption until 2030 on a year-on-year basis. We have a clear target set out here and we have projects running to that effect.

Talk about renewable energy usage and our target is to ensure that all our plants use 100% of the power that we buy has to be from renewable sources by the year 2024. We have various projects in terms of power purchasing through renewable sources, renewable generation sources as well as investing in solar power in our own generation sources as well as on projects to look at can we try to improve the energy efficiency itself in terms of energy usage in our plants. So, these are the projects that we have been pursuing and we will continue to sustain them.

One other important element is safety of our employees on our manufacturing sites and clearly thereto we have targets where we saved a 10% average annual reduction in our LTIR rates of accident rates, as we measure by the year 2025, we continued to reduce year-on-year 10%.

Talk about Diversity and Inclusion and we believe we have taken targets here as well in terms of gender diversity. And our target is to get 8% of our population, our employees working to be females by the year 2025. All of this resulting in all the four plants, Schaeffler India plants in India to become carbon neutral in their production processes by the year 2030.

Now that said I would like to move on to the next slide, Slide #18 just to throw light on one of the projects under our ESG drive, under the Corporate Social Responsibility which we had started way back in 2019. And which is now started to deliver significant impact to the society and the community that we operate in. And the project being Jal Sahara which was a water conservation project wherein almost close to 180,000-meter cubes of water we have been able to conserve over the last three years since the time the project has started. And this project has now received accolades and recognitions from various agencies and various forums. And three of those I am showing here on the slide here. This is a big matter of pride for us here that the community and the society that we operate in, we have a responsibility, and we demonstrate that responsibility here.

So, various bodies, be it the CSR Box or be it the CSR journals, or for that matter even the ASSOCHAM have all recognized for this Jal Sahara project. And we will continue to sustain this. To draw inspiration from this project we have now initiated two more water conservation projects, one near Hosur in Tamil Nadu and the second one near Baroda in Gujarat. Now these two have been just initiated and hopefully we will see some recognitions coming our way from these projects as well.

So, I move to Slide #19, and to sum it up we had a strong performance for the quarter across all the domestic business, yes, our exports moderated a bit in terms of the ongoing situation in Europe and the global demand softening. We also kept our focus on the counter measures that we operate with in terms of volume gains. And also improving the efficiency of our operations to deliver strong earnings quality which you have seen already.

We will continue to keep the focus on investing in our capacity expansions at both our Savli and Hosur plants. And yes, the market and the external environment is pretty volatile and pretty challenging, however we will remain optimistic taking judicious decisions to adjust our sales, to stay on the course to get to the target so that we deliver the promised value to all our stakeholders. With that I come to end of my presentation. Thank you so much.

**Moderator**: Thank you very much sir. We will now begin the question-and-answer session. We have the first question from the line of Vimal Jamanadas Gohil from Alchemy Capital Management Private Limited. Please go ahead.

**Vimal Gohil**: My first question is on exports -- if I were to understand right given the fact that our entire exports come from the parent entity which has been focusing on bringing some of the production line in Europe to India to cater to markets in Asia Pacific and beyond. Now I understand the macro part which has been challenging. But the share increases of India itself should have led to some growth, which has not happened so if you can highlight what was the issue there?

The second question is on the passenger vehicles growth you highlighted in your presentation that the production growth has been about 10%. Now if I were to look at our core automotive growth that has been pretty much in line with that but given our increase in content per vehicle our growth should have been slightly higher over there, because a large portion of our automotive is coming from passenger vehicles.

And lastly if you can highlight what is the full year CAPEX that we are looking at for CY23 including our expansion at Savli and Hosur?

**Satish Patel**: Let me take your first and the last question. The first question is related to exports. Now let me give you a little preface as regards our export strategy as well as what all we have done for this business. We have the strategy of expanding exports. We are not only having our business exports with Europe or confined to Germany, but all the continents. As part of our strategy, we have significantly grown in exports; if you see our growth in exports for the last year that is 2022 that was over 40% if I remember correctly, it could be even higher. Last year, lot many product relocations also happened as part of our strategy and that is continuing.

On that level of growth, this year, despite the global slowdown of the economy we have grown in exports for six months by about 3%. Now the 3% growth that we have recorded for 2023 half year, is on a very high base of 2022. In my opinion this growth itself is quite satisfactory however we have to also keep in mind that global conditions are not favorable. Germany economy is in decline by half a percent, negative. Western Europe is growing only at 1%. U.S. the market that we serve which is North America is growing at around only 2%. Asia is definitely growing. India is growing significantly, but also if I look at the Southeast Asia that is growing close to 3.7% - 3.8%. And our business exports are in all the continents and therefore we have been able to record this 3% growth. Just to share with you that almost 35% exports are to Asia, largely to Southeast Asia: 45% to Europe and 10% to 12% to U.S. and 10% to 12% to China. Because of this mix we have been able to also ensure that there is a consistent growth.

So, there were two significant parts of our strategy, first - focus on localization and relocations that has worked quite well, second - sectorial mix that is presence in all the continents that has also been helping us in order to sustain the growth. It is unfortunate that this year we have the economic slowdown particularly the global economic slowdown in Europe and therefore there is impact on our exports.

Also coming back to our strategy of exports as far as our whatever localization strategy is concerned, that is on track. And that is going to further bring sort of some growth in exports. And therefore, we are of the opinion that we are on the right track as far as exports are concerned and focus on this business is concerned that also contribute significantly to our performance. And therefore, the strategy is very much intact.

Coming to the third question I take first, which is I think he wanted to know about CAPEX for the full year. For the full year our plan is to and this we had announced in the last quarterly call as well as in the previous earnings calls as well that for the full year, we would have a CAPEX outgo of close to INR 550 crore so it would be above INR 500 crore; for the half we have already spent over INR 250 crore. We are on the right track. We have spent for capacity expansion at Savli plant, the new plant which got inaugurated in June is fully ready now. And that would start delivering the production, also for Hosur, the plant construction has begun. And for other locations, which are the Talegaon for automotive as well as Maneja for industrial business we are working on the CAPEX, we are working on the expansion and also having CAPEX there.

Connected to that I also want to highlight one point that if you see our six months growth, we have grown in the operational area, which is production and capacity expansion, by 10%. Our trading is in decline, but manufacturing is increasing this also brings a better mix. And that has helped us retain profitability. And this has also helped improving the capacity utilization from the level of 77%, 78%, 79% to over 86% to 87% reflection of that, reflection of all of this is there that you can see in the quarterly results as well as the half yearly results.

**Harsha Kadam**: So, Vimal to explain that there were two parts to the question that you asked, one being on the content per vehicle and second was our share or our growth with respect to the passenger vehicle sector. Let me put up some data points to validate that.

If you were to look at based on the SIAM report, look at the first quarter and the second quarter production numbers, the passenger vehicle production numbers were 10% better than the same period last year. And if I were to compare that with the sales that we do obviously because our sales and their production is what we need to compare with. If you look at our sales to the passenger vehicles segment, we have also grown by 10% so we have not lost share anywhere.

Let me now give another data point, if you look at the Quarter 2 in isolation, the Quarter 2, the passenger vehicle production was down 7% lower numbers than the preceding quarter, whereas our performance we have remained flat. We have remained at the same level which means we have sustained our growth; we continue to grow.

While that's on the passenger car let me draw a little attention on the commercial vehicles. Commercial vehicles, if you look at their production numbers, for the first half of the year it has not grown at all, it's just about 1% growth whereas our business in the commercial vehicles, space has grown 22%, clearly validating that our focus and our strategy to look at growing our business in the commercial vehicle space is yielding results.

Let's look now at the tractor which is another segment. And here again while the segment production itself was 9% up compared at a half yearly level, our business was up 21%. So, all the key numbers and indicators are showing that we are doing pretty well in terms of driving our growth strategy in the autotech space as well.

Coming to the content per vehicle, yes, I did say that for the gasoline engines and whatever small quantity of diesel engines that are being produced in the country today, all content per vehicle remains in the range of €50 which we still continue to keep the numbers. We are better there. We have not lost, the content per vehicle has not come down. What is helping us here is the improved growth in the commercial vehicle space is where the content per vehicle is much higher is where we are seeing good successes coming in. So, in a nutshell, on the passenger vehicle or the automotive business space, we have posted pretty good numbers compared to what the industry has actually done.

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

**Harshit Patel**: In past few years there have been many acquisitions by the parent company in the industrial space including that of Ewellix and Melior Motion, so do we plan to introduce these products in the domestic market, or those products are already present here?

**Harsha Kadam**: There were two major acquisitions that was done in our industrial division or industrial business one was the Melior Motion which happened three years back, this was into high precision planetary gearboxes which is going into variety of applications, particularly in high precision drive applications like robotic arms, be it in the industrial robots or even cobots for that matter, as well as some of the automation industry where the machine tool industry which needs these kind of high precision or ultra-high precision product.

Now when the acquisition was made the company was already doing some amount of business in India, they did have a small trading operation, they did not have any manufacturing setup. And by virtue of the acquisition that we have made we now have integrated the local footprint whatever it was, it was an office with the sales team, they have been integrated into Schaeffler India's portfolio. And now we have been aggressively driving the growth story for Melior.

The same is the case with Ewellix, Ewellix as a company which was acquired is into linear drives and this is again focusing on the machine tool industry as well as the packaging goods industry. And we have secured quite a few business wins here as well. And the integration in India where again they have a trading office with the team is well underway right now.

I must say that the local competence that we have been able to integrate comes with rich experience of the Indian market and the product knowledge and the application knowledge. So, we have integrated the entire team which was there by way of these acquisitions into the Schaeffler India team. And now we have taken over full responsibility. We have a clear strategy now set out for the next five years to go, start to grow these new acquisition businesses.

**Harshit Patel**: Secondly wanted to understand our auto aftermarket segment a little better, what percentage of sales of this segment do come from own manufactured products vis a vis services traded products. I believe wipers, lubrication systems, batteries, that you have recently introduced all these would be traded products on the other hand shock absorbers, center joint support this should be manufactured by us, right.

**Harsha Kadam**: You know our focus continues and will remain on our own manufactured products because they are the ones which really add true value to the end user as well as to our OEM customers who buy these products by way of the OES route as well. So, that said out of the total business that we do more than 90% of the business is towards our own manufactured product, less than 10% would be coming out of the white labeled goods that we do which are mostly traded. And I guess this equation will continue to remain the way it is because we will continue to invest and focus in capacities as well as in development activities when it comes to our own manufactured products.

**Harshit Patel**: So, not plans to set up the batteries manufacturing footprint, right. This will continue to be manufactured by our partners.

**Harsha Kadam**: For the white labeled goods our business model we like to pursue is to work with our strategic partners. And we work with them in terms of putting in the quality systems, in terms of validation, in terms of homologation. And we make sure that the products meet the performance standard and the quality standards of Schaeffler, but we will definitely not be manufacturing those products. But we will handhold and work with those suppliers to reach the expectation of the set standards of Schaeffler.

**Satish Patel:** And also, just to add one comment that our core business, our core product portfolio of bearings, clutches and engine component we continue to focus on that. Our white good addition in aftermarket business is actually in order to leverage our own core business reach to the market, because that helps offering the comprehensive products including the kit and the package, as a package we are able to offer to the aftermarket and that helps us actually growing the core business as well. So, white goods definitely enables not only the additional revenue, but helps actually driving the overall core business so that's also one of the important reason.

**Harsha Kadam:** Also, if I may add to what Satish just said, when we hear the voice of the customers and in this case or distributors where we have an extensive reach they too voice that Schaeffler is a strong in the marketplace and these are products that definitely would be adding more value to the customer and hence it will be good we offer them a portfolio of products rather than just stick with our manufactured products.

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

**Mukesh Saraf**: My first question is on the non-auto business, just in the last few quarters there is flattening out there and you did highlight about the weakness in the wind energy business. But now with Savli expansion more or less ready and I think you had also mentioned about some products that are on taper roller side and the spherical roller side, could you give some sense on these new markets that you will be now trying to get into with this new production. If you could give some sense of what could be the opportunity there from these new products that you will be coming out with at Savli?

**Harsha Kadam**: Okay, let me try and break the question into parts, I already talked about the automotive business we do see some sluggishness, still they are not out of the woods when it comes to the chip shortages. So, we will continue to watch, monitor the market and accordingly keep adjusting our tactics to be relevant in the game.

Let me talk about wind since you are the first one to ask the question about wind, what we have seen is in the last four quarters wind was continuously coming down in terms of the number of equipment that were produced in the country. The Q2 was the first quarter and that too more so in the month of, some of it in May and the rest in June we saw a strong uptick in terms of production increasing, the numbers going up, which actually have helped the second quarter numbers to go up.

If I were to just throw some data here, the second quarter, the number of wind equipments that were produced in the country was 16% higher than the preceding quarter. So, there was a strong 16% uptick in terms of demand and our business to that effect to the wind sector was up by 31%. Obviously, the mix was helping us here as well in terms of the product that the customers wanted.

So, we have been to leverage the bottoming out and turning around. What we are looking forward to is that this growth story continues to sustain, for that we will have to cautiously monitor for the next few more months to see if this trend will continue.

And the last one was about the capacity in Savli where we are investing in some of these products, exports. Yes, as I said earlier and during my presentation the expansion of our Savli project wherein, we are bringing in additional spherical roller bearing lines, we are bringing in taper roller bearing lines as well as lot of facilities in terms of heat treatments, grinding and so on. These are primarily focused on the wind and some of it is on the raw material sector and the rest is for the railway sector that we are investing in.

**Mukesh Saraf**: So, the question was more relating to are these products that you are currently not catering, I mean segments that you are not catering to with these products and so it's like a new market that you are targeting with these products within say wind or railway?

**Harsha Kadam**: Let me clarify that, we have been catering to these customers by way of our imports, meaning manufactured in the plants outside of India, we were bringing these products into India and offering it to our customers. We have a clear strategy to increase the localization content, meaning that we begin to make those products in India rather than import. And we have already started to see the impact of that, our own manufacturing content in second quarter sale has got up to almost more than 76% already. So, clearly our localization is a key strategy for us, exactly in line with the government's drive of Make in India. So, we have a strategy wherein we will continue to bring more and more products to be made in India and we also export them plus we feed the Indian market as well. All these days, some of these product lines we were entirely importing which we now want to make here.

**Mukesh Saraf**: And just one last one if I may squeeze in, you had mentioned about getting into bearings for electric two-wheelers, if you could give some sense on, is the content here much higher than say a regular ICE two-wheeler in terms of the bearing content?

**Harsha Kadam**: Yes, some of the application within the electric two-wheeler space would need bearings with different engineering specifications and it depends, some of them would not change in the specification, some definitely would change. So, bearings that go into hi-speed motors, obviously would require different performance parameters to be met with. So, that said, we have reengineered our products to fit or meet those specifications as well. And accordingly, and appropriately as bearings we have been able to position those which go into the high-performance needs, we will be catering through those new specifications that we have come out with and some of the businesses we have started to already acquire. So, nutshell, yes, we have the capabilities both the engineering capabilities as well as the production capacities to offer such products even in the electric two-wheeler space.

**Moderator**: Thank you. The next question is from the line of Rishi Vora from Kotak Securities. Please go ahead.

**Rishi Vora**: Just wanted to understand what the current business mix of our bearings versus non-bearings for us is. As well as within bearings how much of our revenues is derived from let's say wheel and bearings, engine bearings, if you can give any color pertaining to that, that would be helpful.

Secondly any comments on how the railway segment is doing currently. How has ordering been over the last two to three quarters and what are your expectations?

And just last question on the electric two-wheeler side, so let's say if you are supplying x content to ICE two-wheelers today, once the full transition happens to electric two-wheeler, how will the content, the overall because the number of bearings will be lower in electric two-wheeler but as you highlighted that because of high motor the specs would be different. So, if you could give any color around that, that would be great?

**Satish Patel**: So, Rishi the content as far as our total portfolio is concerned bearings, we have 60% so out of total product portfolio bearings consists of 60% and other components which are engine, transmission solutions particularly clutch business and engine components consists of 40% of the product portfolio.

The second part of our question was within bearings, which types of products we have, now that is detailing into some five to six major segments, and the detail would be provided by our IR head to you later on, because we want not to spend time spelling each out of the segments and how much is the mix.

**Harsha Kadam**: So, like we had shared even in last quarter's investor call, we have secured some wins even on the Vande Bharat trains that are now launched. And we will continue to secure new businesses on the new projects that the Indian Railway is driving. On the other hand, even the Metros which is fast expanding in the country, we are very strongly positioned there as well, we enjoy a very good market share there.

So, overall, both put together, I just talked about our localization strategy where the inauguration of the Savli hall and the product portfolio that we want to manufacture one of it is also for the railways, we will continue to build on it. So, rightfully, we will be localizing a lot of parts for the railway which have been missing for some time. We will continue to do that more and more. And certainly, we believe that all the future projects that the Indian Railway is aggressively driving; we will be able to be a strong contender to play the game accordingly there as well.

**Moderator**: Thank you. The next question is from the line of Deepak Jain from Enam AMC. Please go ahead.

**Deepak Jain**: Can you give some color on the two-in-one clutch which you have developed for EV OEM? What is the status of that? And is it a domestic OEM or an export OEM?

**Harsha Kadam**: Unfortunately, I will not be able to share those details, it's a confidential project, pardon me for that. But yes, it's an important project for us, but I would not like to go into the details of the project at this point in time.

**Deepak Jain**: So, in the last call you said that it's a €300 million opportunity over 7 years period and commissioning will start from next year.

**Harsha Kadam**: Yes, all I want to say is the project is well on track, correct. And we have a clear localization plan, yes. And things are working according to plan. So, as of now that's the way it is, but we are on track.

**Satish Patel**: In fact, we also announced the strategy, we did mention that as far as the transition into e-mobility in India is concerned we would be ready early enough and we are happy to say we are ready early enough.

**Deepak Jain**: Second is on this plant relocation, just some clarification, does it bring incremental revenues also or it helped margins?

**Harsha Kadam**: It's all inclusive actually.

**Satish Patel**: The competence on the manufacturing it brings competence on the technology, engineering and also bring thereby revenue as well as the overall profitability. Well localization is always favorable from the cost point of view. In addition to that, also from customer service level point of view, because when you are manufacturing or having the localization you have the better supply chain, you have a better network and that helps increasing the competency in all respect. So, certainly it helps revenues, but it also helps in terms of overall performance.

**Harsha Kadam**: Yes, Deepak it goes without saying that if it's in our strategy, obviously our strategy is to grow profitably so it cannot be just grow, it has to be profitable as well.

**Deepak Jain**: And lastly any update on PLI?

**Satish Patel**: Yes, PLI as we already announced that we have been one of the 70 - 75 odd number of applicants who got selected out of over 200 applicants. So, we are already selected as the component champion for PLI Scheme. Currently the scheme is at the product approval level and there is a process which is very robust that government has set to approve the products and also to approve the entire process application, that is at that stage, and it is going on. So, considering the timeline it seems that next few months there would be that step completed and thereafter we will accordingly have further steps with regard to availment of things and this would begin.

**Moderator**: Thank you. We have the next question from the line of Pramod Amte from Incred Capital. Please go ahead.

**Pramod Amte**: The first question is with regards to the localization drive you have taken, if you had to look three years down the line what this mix will look like imports versus locals, any thoughts on this?

**Satish Patel**: Yes, so currently we have about 75% domestic production and 25% imports. And this was actually 70% and 30% in the past and has reached to a level of 75%-25%. Our localization drive continues and that is going to reach to a level of 79% to 80% so the mix also would improve to a level 80, 20, 10; that is the strategy we are on track currently. Yes, there can be slight adjustment to that either side, but overall, I would say we are on track and working on the localization, so far, we have been able to successfully localize whatever projects and the products that we had defined in the strategy, and we are going to continue that focus also in the future.

**Harsha Kadam**: Also, I think another data point is if one were to look at Q2 of last year our own manufacturing was about 74.5% which today is at 76.5% so literary we have increased our own manufacturing which clearly points to the localization initiative.

**Pramod Amte**: The second question is with regards to your participation in the EV momentum, you did talk about two-wheelers, and I think in the earlier conferences on the cars. Anything on the bus electrification you guys are working on or you already have won the orders, because that also seems to be a government focus if it's true, and which areas will that be?

**Harsha Kadam**: Good question Pramod, right now we are focusing on the passenger vehicles and that's where our focus is. We already have secured one business win which we want to execute. While we are evaluating and studying the commercial vehicles require some different technologies when it comes to power electrics and so on which at Schaeffler we are still missing in our portfolio. But nothing to stop us from going forward in the years to come, certainly I don't see a reason why we cannot play the game in the commercial vehicle space also.

**Pramod Apte**: And a related question is since you talked about this passenger vehicle win, will it have an influence on what you will import versus locally manufactured and what is the extent as you go forward, if there are you feel there is a good capability to do a substantial part local manufacturing for this?

**Harsha Kadam**: Logically the right thing to do would be to manufacture in India, now that we, as you heard Satish talk about that we are one of the 75 champions that have been selected under the PLI Schemes, so obviously it is logically right that we make the entire product here. But then what we believe needs to be developed and should be here as well is the supplier base has to be there in place, the supply channels have to be in place, which is something we are working upon, so we will definitely move in phases and in stages to start to first import the product, but then start to localize in India as we go forward, that's clearly in our plan.

**Moderator**: Thank you. The next question is from the line of Suraj Sonalkar, Asian Market. Please go ahead.

**Suraj Sonalkar:** I had question particular to your wind business, you have given 16% growth for the market and 31% for Schaeffler India, similarly is there any number for the growth in the international market for us?

**Harsha Kadam**: No, I didn't get the question when you say international, is it wind international you are talking about?

**Suraj Sonalkar:** Like the export we do.

**Harsha Kadam**: No, let me clarify then, our customers they manufacture the wind turbines, and they export it out of India. So, if you look at the number of wind turbines produced in the country, more than 80%

to 85% of the production of our customers is exported. We only supply to them within India, we do not export directly to the wind. So, in a way by default our products are already in the export market through our customers product. Hope I have cleared.

**Suraj Sonalkar**: Continuing to this, I just wanted to understand in the European wind market, players are like GE, Vestas and Gamesa they have reported failure of turbines recently in last one year and there are significant warranty claims associated with that - to the component size. So, in any way are we impacted to that because we are a big supplier of bearings in that?

**Harsha Kadam:** Let me clarify that, at this point in time the investigations are ongoing, but very clearly it has not impacted our business or our products in any which way so far. So, that's a good thing, a positive thing that our products have not failed, they have been doing well. I believe it has to do with some of the supplier we don't know which one is that, yet.

**Suraj Sonalkar**: Does it mean that there might be higher opportunity for us in terms of replacement of those faulty bearings?

**Harsha Kadam:** Well, I guess that decision is up to the customer to make, would he want to source it from alternate suppliers or would he go back to the same supplier to do a correction. The traditional, normal approach would be for them to go back to the same source, but we never know, but we are ready if opportunity comes, we will be ready.

**Moderator**: Thank you. The next question is from the line of Sabyasachi Mukherjee from Bajaj Finserv AMC. Please go ahead.

**Sabyasachi Mukherjee**: Yes, so first question is I understand the mix between bearings and the non-bearings such as clutches and engine components, so my question is what component of your business is probably at a risk from the technology disruption in terms of the electric vehicle. Is it 40%, entire 40% of the business and if it is how are you trying to kind of mitigate the risk going ahead.

**Harsha Kadam**: Yes, as you said the 40% of the products that we make are going into the engine and transmission application as well. And there is what is also called chassis application. So, if I can clarify the first and foremost the chassis products definitely, they still continue to be there, there is no impact for the chassis application products that we make.

Again, coming into the engine products, yes there are some products which would get phased out as and when the adoption of the electric vehicle technology comes in more and more. But when we look at the study reports, the research papers India is still a long way.

What do I mean by that. By the year 2030-31, if you were to take out of 100 vehicles produced, the passenger vehicles produced close to 80 out of that 100 would still be using gasoline engines. So, it's still a 15% to 20% adoption rate, that's one data point.

The second data point is when you look at the number of absolute number of vehicles produced in gasoline, it is not going to go down, it is going to remain flattish, because there is obviously some organic growth happening. However, we do not rule off the possibility of electric vehicle adoption increasing provided a legislation change happens.

In India a lot of things is driven by legislation changes and if that were to happen, then yes obviously there is going to be some change and that certainly would start to impact in terms of lower production numbers for us, for those products which go into the gasoline engines. However, we are also actively working already on our electric e-axle projects with one customer and now we have a few more RFQs which we are working on , this is exactly in line to secure the future that we are investing in.

Another data point if I can put on the table is when you look at the value of product, the so-called content per vehicle as I talked about earlier in the gasoline engines, ranging average above of €50 per vehicle. If I were to apply the same formula to an electric vehicle, the content per vehicle is dramatically higher for us. So, it is any which way we will look at it, it is a win for us, not to mention that the vehicles gasoline engine vehicles that are produced are still going to be on the roads, they are not going to be taken away. They are still going to be some aftermarket demand or play in the automotive aftermarket which is going to help us there.

So, it is not like we are going to shut down the productions and what do we with the manufacturing capacities, obviously we need to still continue to feed the requirement, because as we see India still is a slow adaptor when it comes to the EV technology.

**Sabyasachi Mukherjee**: Just a follow up to that, what does it have impact on the margin implications for that, because as far as I believe your bearing components will have a higher gross margin, whereas the engine components in the chassis will have a lower gross margin. And as we move from more 75% to probably 80% localization level, that is also will help improve our gross margins, but from a mix angle bearing versus non-bearing, depending on the EV portfolio, how does it impact the margins?

**Satish Patel**: It is very good question, but very difficult to answer at this point of time, because we are still at the infant stage of e-mobility right in India and to already envisage what could be the level of profitability I think that’s very difficult to answer. But coming to your portion of the question where you mention about the mix, it is not like that certain business in our today’s portfolio which is engine, chassis and bearings. Among them there are significant market variations.

Yes, within the products yes, but not at the sector, at the divisional level. So, I do not think that even if we go to transitioning to e-mobility that would create significant change in the mix, because it positive or adverse or negative. So, it is unlikely from the mix point of view. But from the sheer margin point of view e-mobility it’s very early to comment.

Additionally, I want to also provide a comment that in order for companies to switch to e-mobility, lot of initiatives are undertaken by the government, one of them is PLI and therefore I always comment that PLI incentive or PLI benefit is not for earning profit or making money, it is actually to support transitioning to e-mobility. So, that investments are actually fast-tracked, and also other sort of activities are undertaken so that you are breakeven point becomes faster. So, such initiatives are also going to help transitioning e-mobility even if from the profitability point of view e-mobility becomes challenging in the initial phase of the transition.

**Sabyasachi Mukherjee:** On the debate between in-house manufacturing and outsourcing of the key components of a bearing and like cages of the bearings or something else, what's your thoughts and what has been the trend for the last five years? Do you see more outsourcing of some of the not so non-critical components going ahead?

**Harsha Kadam**: I would say more than calling it non-critical, I would put it this way Mukherjee that as the capability to produce critical components in India of more and more suppliers are becoming capable, I see no reason why we should not be modifying the business model to source component level products and add more value in terms of the product and solution by way of digitalization and by way of embedded technologies. So, that's where every big organization would move in that direction.

In the past all of us were constraint that the capability of the suppliers was upcoming, but now I guess that's maturing. As it matures and our supplier capabilities, they can make more and more precision engineering products at a component or within a bearing at a component level, well that's the natural evolution of the business. And I guess that's what we see happening in India as well.

**Moderator:** Thank you. Ladies and gentlemen this would be the last question for today, which is from the line of Saif Saurabh Kochhar from ICICI Prudential Mutual Fund. Please go ahead.

**Saurabh Kochhar**: On the last concall you had highlighted about our export order book position which was around one years of orders and your target to reach around 20% of revenue from exports, right. So, any update on the same in terms of export order book now what stands at and target to achieve this 20%?

**Satish Patel:** Yes, well we might have just made a remark about particular percent but let me tell you we can't say 20% or particular percent. What we can say is that we have the strategy of growing exports in two parts, one is the product and the second is the geography. And on both front we are working that's what I specifically mentioned in my initial, there was one initial question on exports, and I had commented about both the aspects.

And with that strategy we are quite confident that we would be growing also in the mix perspective. In fact, last year we had already reached a level of almost 17%, it is only because of these global economic conditions and particularly conditions in Europe whereby the demand from the market itself is impacted globally. And therefore, our exports are impacted.

So, hopefully this is not going to going to last long 2024 I think the Europe economy is also going to grow on a positive side and that would help further reinstating the orders for those demands, new demands and thereby we should be able to be again on track also from the mix point of view.

**Moderator**: Thank you. Ladies and gentlemen as due to time constraint that was the last question for today. I would now like to hand the conference over to Ms. Gauri Kanikar for closing comments. Over to you ma'am.

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

**Moderator**: Thank you members of Management. On behalf of Schaeffler India Limited that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.

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(This document has been edited for improving readability)

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