SCHAEFFLER

Schaeffler India Limited · Pune · Maharashtra

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**Company Code: 505790**

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Exchange Plaza, C – 1, Block G,
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**Company Code: SCHAEFFLER**

02/08/2022

**Sub: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Transcripts of Analyst/Investor Meet held on July 28, 2022.**

Phone: +912068198464

Dear Sirs,

With reference to our letter dated July 28, 2022 on the subject, please find enclosed the transcript of the Analyst/Investor meet held on July 28, 2022, for your information and records. The same is available on the Company's website - Concall Transcripts | Schaeffler India

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

# "Schaeffler India Limited Q2 CY2022 Earnings Conference Call"

## July 28, 2022

**MANAGEMENT:** **MR. HARSHA KADAM – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER - SCHAEFFLER INDIA LIMITED**

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

**Moderator**: Ladies and gentlemen good day and welcome to Q2 CY2022 Earnings Conference Call of Schaeffler India Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Gauri Kanikar. Thank you and over to you, Madam!

**Gauri Kanikar**: Good morning everyone, thank you for joining Schaeffler India Limited's Earnings Conference Call for the second quarter and six months ended June 30, 2022. We have with us from the management Mr. Harsha Kadam – our Managing Director & Chief Executive Officer, and Mr. Satish Patel – our Director-Finance & Chief Financial Officer. Mr. Kadam will first take us through a short presentation on the results after which we open the floor for questions. Thank you and over to you Mr. Kadam.

**Harsha Kadam**: Thank you Gauri. Good morning to all of you, a very warm welcome to this investor call and presentation for the second quarter and the six months ending for the year 2022. I have with me Satish.

**Satish Patel**: Hello, I am Satish Patel, good morning and warm welcome to all of you.

**Harsha Kadam**: Before I get into the presentation flow, I wish to take the opportunity to sincerely thank you for accommodating the change in time of our investors call and that is truly appreciated.

Let me now get into the call and as I am on the first slide. I move to the slide on the agenda wherein I would like to cover some time on the economy in the industry and give you a background as to the changes that we have seen since the last quarter. Then I would like to touch upon on the business highlights for the second quarter and the six months year ending, after which I will take you through the financial performance of Schaeffler India for the second quarter as well as for the six-month period. Lastly I would like to touch up on another subject which is very dear to Schaeffler globally and also in India and that is about ESG - where we have started to take some measured steps in the direction on the journey towards ESG.

So let me get into the slide on the economy and the industry. We have been seeing a lot of changes on the macroeconomic scenarios and I am sure all of you are well updated about the developments globally as well as locally. Now having said that, the GDP which is projected to grow at 8% already there have been talks of some amount of moderation here considering the fact with all the geopolitical developments that are happening in the West and the chip shortages which still continue to affect businesses in many areas today. With all that, we still believe that India continues to show resilience despite the elevated levels of inflation which we are already facing with the oil prices still continuing to stay pretty high and with the continued global headwinds still continuing to show a downside or risk to the growth story, but definitely it is not a total collapse of the growth story that we see. When you look at the industrial production, a 5.9% growth that we are seeing. It is a moderate growth, but then it is still a strong growth when compared to the uncertainties that prevail around us. And when you look at the electricity and the power generations which I will come to a little later, you will see that the industrial growth still continues to remain on track and progress well. Talking about the automotive production what you see is a 14.3% growth in the second quarter, you will see that when compared to the last quarter - of course the last quarter reference was due to the fact that we had the wave two last year, so you will see a double digit growth here, but nevertheless there has been a strong rebound from the auto OEM manufacturers in terms of vehicle production numbers coming in the second quarter of this year. One definite concern has been the depreciation of the rupee and surely that is going to push the inflation levels up which we are already there and now - are the inflation that was going to dampen the growth story or moderate the growth story and to what extent does it get moderated – it's is a question of time and the measured steps that the government is planning to intervene and take to correct the inflation levels in the country.

Moving on, I move to the next slide which talks about the core sector performance and what you see here is a good, sustained performance from the industry sector. When you look at the cement production for the first five-month period you will find that the cement sector has definitely performed better than the same period last year with a 11.6% growth. Talk of steel and there again we see a positive growth to the extent of 6.1%. Core production and mining has been picking up pretty well with 11% growth when compared to last year, what is also heartening is to see the power generation in the country which has been at a pretty good level especially in the second quarter beginning you would have seen that the April and May month have registered pretty strong power generation in the country clearly indicating to the increased economic activity in the country.

Moving on I would talk a little bit about the automotive sector, and this is where you see a mixed bag coming out. When you look at the two and three-wheelers, the first quarter of this year and the second quarter - you would see the second quarter some small recovery beginning to happen already there. Although if you just see the moderate growth over last year is also still just about 1.7% but nevertheless it is definitely showing a positive upward trend. With the festival season that is coming up in the next quarter it needs to be seen how the sector is going to perform. Look at the passenger vehicles and here again we have seen some signs of recovery with some of the big OEMs and clearly the number speaks for themselves with May and June with about 3,38,000 vehicles being produced in the country and 3,67,000 respectively for May and June registering a clear 15.1% for the six-month period that we compared with the previous year. Commercial vehicles did definitely have some slowdown the month in-between April and June in the second quarter when compared to the first quarter, but nevertheless compared to the last year same period you will find a clear 52% growth in production numbers in the commercial vehicle sector. Tractors which for the previous last three quarters excluding the quarter two of this year we had seen that it was on a downslide has turned around and we have seen the tractor production in the country crossing the 1,00,000 number in the month of June and thereby narrowing down the gap that was there compared to the levels that the sector was in the previous year. After registering a strong growth, we have now seen in the second quarter a small recovery on the tractor segment and with the good monsoons that is prevailing in the country now we believe that this sector should continue to show the positive growth trend going forward as well.

I now come to the business highlights for the second quarter and the six months ending. So in summary what we saw was a very strong sales development across all the businesses where we, Schaeffler India played a game in. We had some good and sustained business wins which we continue to work with some of our prestigious automotive OEMs and also our industrial customers about which I will talk to you in the next slide. In terms of financial performance, we have been able to maintain the consistency that we have been delivering in the last few quarters successfully. Also, we were able to increase our Capex spend in the quarter which I will come to the numbers in the next few slides. One important activity that we had initiated, and which came to a closure in this quarter is the divestment and hiving off of the chain drive business globally. We now completed the formalities in terms of business transfer agreement with Catensys India who is the new owner of this business now and that was concluded in this quarter. On the sustainability front, Schaeffler as you all know stands committed to its carbon neutrality targets to get to zero by the year 2040 and with that we have taken measured and focused targets across the globe and India is now exception to that. Having said that sustainability being at the core of what we do, we have now initiated some more actions and events have taken place which I will talk to you - two such events I would like to cover in the call today. Of course, it goes without seeing the effort that the Schaeffler India team is putting in to deliver the best quality products with the good performance levels and also innovative solutions - the customers have recognized with a number of awards. Just to take an example in the second quarter alone we had four such prestigious awards coming from very important customers. Clearly indicating the focus that we have brought on quality not just of the product but of our services and also the agility in the entire value chain that we have brought in to ensure the customers are serviced better than before. I would also like to point out that we still continue to see headwinds - input cost continue to grow up. With the steel price increases that came in, in the second quarter the pressures definitely on the input cost became a little more visible and not to mention the inflation that is prevailing in the country which to some extent becomes a dampener in terms of the demand.

We closed the second quarter with INR 1,748.8 crores in terms of revenue that was clear 41.8% higher than the same quarter last year. If one were to look at the performance comparing to the Q1 of 2022 we posted a growth of 11.6% than the previous quarter. Talk of the EBIT margin, and here again we were able to bring in INR 274 crores to the bottom line. Clearly as you can see that 15.7% was the EBIT margin in the second quarter and when you compare that with the same period last year we were at 13% - a significant jump in the EBIT margin in the last one year. Obviously this has come on the backdrop of our mix as well as the sales revenue that we have been able to generate not to mention of course the cost control measures and countermeasures that we have put in place which we continue to sustain. The profit of the tax (PAT) as you can see here was INR 225.8 crores coming into the system and the PAT margin of 12.9% in the second quarter was definitely better than the 10.4% which was there the last year same quarter. On the free cash flow, if you remember the last quarter we were in a marginally negative free cash flow situation this quarter and the second quarter we have corrected that and we have been able to bring in about INR 80 crores of cash into the system. Having said that of course we still have some way to go with this and clear focus and actions are in place to recover the situation of the free cash flow.

I move to the next slide where I would like to highlight some of the key business wins that we were able to get in this quarter and our clear focus on penetrating more and more into the electric vehicle segment that has started to pay off even with our foundation products like bearings and clutches and transmission products we have been able to make inroads into the e-vehicle applications as such. So, some key wins in the commercial vehicle sector and some of the passenger vehicle sectors for the wheel bearing application not to mention of course in the clutch system as well we have been able to make some penetrations here. Talk of the automotive aftermarket and here we continue our journey by adding a new product every quarter like we have been doing every quarter and some business wins that we secured as a result of the products that we launched in the previous quarter on the front-end auxiliary drives on the timing kits and so on. We have also brought added a new product in the second quarter called the center joint support and this is only going to augment our portfolio and ensure that the growth story in the automotive aftermarket continues.

Coming into industrial, here again we have continued to leverage the linear guides center that we have put up in Baroda and this is now beginning to generate improved business results for us as well because we have a localization drive that is clearly in that direction, and we have continued to do that not to mention of course the angular contact ball bearings that we have begin to now manufacture locally as well. So, this is enabling us to get some wins within the two-wheeler sector and the machine tool industry sector and not to mention of course the wins that we have secured on the cylindrical roller bearings and the spherical roller bearings in the off-road segment which we have succeeded to gain in the second quarter. I move to the next slide, and this is a little more light that I wish to throw on the divestment of the chain drive business. We were manufacturing this product in our Pune plant and the rationale behind the carve out and divestment has been a strategic direction globally at Schaeffler. As Schaeffler are moving in the direction of the new technology shifts that are happening be it the way electric vehicle technology that is going to replace the IC engine as well as the new field service technology that is also going to come on board of the mobility sector. So having said that we have started off the journey towards transitioning our manufacturing footprint as well in the direction of the new emerging technology and this is clearly coming on the back of our commitment that we want to become carbon neutral by the year 2040. So, the sale to Catensys India Private Limited was executed and the business transfer agreement was formalized on the June 29, 2022, and now the entire business changed our business where the revenue of the business in 2021 as you can see was about INR 107 Crores with a net worth of about INR 15 crores and on a slump sale this was transferred out to Catensys India.

Moving on I would like to come into the financial highlights for the second quarter and also some color on the six-month results. I am on the slide which is talking about the revenue from operations and as I said earlier for the second quarter we have been able to deliver INR 1,748.8 crores in terms of sales revenue which is a clear 11.6% better than the previous preceding quarter and a 41.8% better than the same period last year. Now just to throw light on where is this revenue coming from and you want to refer to the graph below - the revenue bridge so in Q2CY2021 were able to deliver INR 1,232 crores and that in this quarter we have been able to get a INR 1,748 crores out of which the large contribution came from the automotive technology area - INR 195 crores, INR 52 crores coming from the automotive aftermarket and INR 161 crores coming from the industrial sector, exports too has brought in about INR 106 crores. All in all, as you can see that all our business verticals have posted positive development in terms of growth. Look at the sectoral split, obviously the automotive technologies have been able to grow pretty strong and when compared to the same quarter of last year a 40.2% growth, automotive aftermarket grew by 54.4% and industrial by 33.7%. Export has been a clear focused area for us and when compared to Q2 of last year we have posted a clear 62% growth. At a half yearly level automotive technologies continue with a growth of about 22% and automotive aftermarket at about 34%, industrial coming in at about 28%, exports clearly it is 61.6%. So, to sum it up our business mix which is a very good balanced portfolio that we have as you can see from the pie chart below with 39% of our business revenue coming from automotive technology, 37% coming from industrial and exports which we have seen some significant growth in couple of last quarters and automotive aftermarket hovering around 9% to 10% of the business. So, the business portfolio which is pretty well balanced and helps us to continue sustain the growth story.

Moving forward some light on the earnings quality that you see here. As I said earlier we have been able to bring in about INR 274 crores in the numbers posting a 15.7% EBIT margin when you compare that with the first quarter which was at 16.6%. Definitely there is a small drop in the EBIT margin however this is attributed to the steel price increases that began to come in, in the second quarter and the provisionalization that we have to do with that effect, so it is only a marginal drop that we have seen. Otherwise, you will see that the growth story still continues here again a QoQ in terms of value has been about 5.3% and the YoY growth at a level of almost 71%. So where is this EBIT margin coming from - INR 274 crores versus INR 160 crores that was delivered last year same quarter. The maximum contribution of INR 175 crores coming in because of the sales revenue that we have achieved as well as the counter measures that we have put into place in terms of managing our overheads and costs not to mention of course the recovery of the steel prices that we are already on the journey. We did have some marginal impact on the employee cost, and this is coming on the back of the expansions that we have been doing with more people coming on the rolls of the company and of course we do have some other incomes which is marginally impacted, but nevertheless it has still been a sustained growth story in terms of the EBIT margin. Talk about the profit after tax (PAT), as you can see we have been able to deliver PAT margin of 12.9% which is slightly lower than 13.2% that will be delivered in Q1. But however, when I look at the QoQ growth in value terms you still find that we have about 9% better numbers on the PAT, on a YoY basis, growth of 76.2%. So, all in all I must say a reasonably good financial performance of the company. I will move to the next slide which gives you more information on the capex, the working capital, and the free cash flow.

Working capital certainly we see some increases that have happened in the second quarter and as you can see here INR 1,252 crores. We are getting our hands around it and currently we stand at about 20% of the sales which has been a marginal increase over the previous quarter but definitely we are confident that we have actions in place which is going to definitely address the working capital situation some concerns that were experienced during the second quarter was due to the account receivables being a little on the higher side, but that is something that we will get things back on track.

Talk about Capex and the second quarter has been pretty strong where our standalone in the quarter spend on Capex as a % of sales went up to 8% compared to the previous quarters or the previous year as well which used to be around 3.5% - 4%. So, we have been able to increase our spend in the capacity expansions and the localization initiatives that we have been trying to do and we expect that we will continue to sustain this kind of Capex spend going forward as well. I did not touch upon the free cash flow that we started off Q1CY2022 with a slightly lower free cash flow generation, but then we have bounced back in Q2, and we have been able to bring in almost INR 80 crores of cash into the system is that enough well we continue to drive this, and we are confident that in the succeeding quarters we will get back on track on the cash flow generation.

With that I will move to the next slide which is giving us the key figures on some of the performance indicators, and I would like to draw your attention to the first column which is Q2 2022 and then to the column which is titled as the six months 2022. This is to draw a comparison of the six-month period even though the quarter has registered in terms of EBITDA margin 18.6% as you can see at a six-month period we are still at 19.2% which is pretty good level to stay and EBIT margin which was at 15.7% at a six-month period we still stand at about 16.1%. Look at the revenue growth and what you find is, for the six-month period we are now INR 3,316 crores at the end of six months and when you look down below at the PAT margin for the six-month period, we are at a strong 13% PAT margin. So, all in all very good performance indicators that you see on the slides here for the quarter and for the six months period.

I now move to the two initiates that I talked about and the events that we had in our journey towards ESG. Schaeffler being clearly committed in its targets towards getting to carbon neutrality. Our focus really remains on the environment on the social as well as on the government aspect of how we done our business. Now having said that I would touch upon on the social part of the initiatives and the environmental part of the initiatives today. As part of a global initiative Schaeffler globally on 22nd of June had held an event called the Climate Action Day. And this was to get all being complete 88,000 employers across the globe to stop work for 90 minutes, sit down as a team broken into groups get their heads together and identify opportunities on how can each one as an individual play a role in making this planet greener and that begins with each one of us. There was a 90-minute workshop where each and every employee participated and there was a lot of build up to that workshop with a lot of preparatory workshops that were ran a number of facilitators who helped facilitate the workshops and we had more than 100 sessions in India that was run and as a result of these 2,000 ideas that came out bottom up have all been captured. Now these are being assimilated and collated so I have to draw a clear action plan and then execution as to how Scaeffler India can contribute its might in a small bit towards the carbon neutrality journey that we are walking on.

The second initiative is on the social side and the first of its kind within Schaeffler India and the first time we engaged with the Indian Institute of Management, Ahmedabad. We have launched a social innovative fellowship program wherein we have started to identify startups who specifically work on developing solutions for the need areas, and this is a social cause not given by a profit of course and clearly we had our initiative that we kick started in November last year which company may get into 11 awardees coming and making a pitch to us. I must say it was one of the most gratifying events, 600 applications received, and we were able to put through review mechanism there. The specific areas that we have targeted were education, health and nutrition, renewable energy, water conservation and waste management and some of the winners as you can see in the logos of the company displayed below. 11 awardees were finally awarded and these awardings would be handled and coached by professors from the Indian Institute of Management, Ahmedabad for a period of three to six months to enable them to scale up as well as to reach levels of excellence. So that they can sustain the growth stories of these startups. This is one step in the direction where under our CSR initiative as well we wish to participate more, promote more startups to grow in the country thereby making India a better place and a better economy.

So, with all this challenging quarter that we had in Q2 but yet we sustained our growth story because we stayed focused on the goal that we want to continue to grow our business with our esteemed customers and it is equally important what we do and also important how we do. We continue to sustain the countermeasures that we have already put in place to ensure that we stay committed on the targets that we are said to deliver to the market plus we also continue our journey of localization as well as there will be more product lines into India and so our capital allocation continues to remain a priority and we will continue to increase our investment strategy going forward.

With all this we stand committed that it is not just a growth that we look for. We look for delivering a sustainable and responsible growth at the same time we also ensure that we stay focused on our customers. With that I will end my presentation. Thank you.

**Moderator**: Thank you very much. We will now begin the question-and-answer question. The first question is from the line of Mukesh Saraf from Spark Capital. Please go ahead.

**Mukesh Saraf**: Good afternoon, thank you for the opportunity. My first question is on the margins we noticed that the gross margins have declined compared to the previous quarter sequentially. So, the larger question is how does product mix affect the margins and is there any element of pending pass through of raw material costs.

**Satish Patel**: Yes, as far as your question is concerned slight decline in the gross margin this quarter vis-à-vis the last quarter. It is not impacted so much by the mix, the impact is largely because of the provision for the input cost mainly the steel price increase in the second quarter vis-à-vis the first quarter. It is more of a cost and the little bit of the inflation impact for some of the non-production material that has also gone in the quarter two vis-à-vis quarter one. So yes the margin level is slightly lower in quarter two, but it is entirely attributable to this factor and not so much because of the mix.

**Mukesh Saraf**: So just in continuation with that could you broadly give an explanation on which are the segments where we have an automatic kind of a formula based pass-through and which are the segments where we have to kind of negotiate a pricing increase.

**Satish Patel**: So very good question in fact it is a mix of that, so we do have certain level of indexing for some of the businesses mainly in automotive. And for some of the customers it is negotiation based. Last year you would have actually noticed, and we had also briefed to our investors that we were able to pass on the significant portion of the input cost to our customers. The similar situation would remain this year as well however there is always a time lag between the cost impact on us and the recovery from the market. So, this does play a little bit of a role when we look at the performance quarter-on-quarters but as far as whole year is concerned this should get eased out.

**Mukesh Saraf**: My second question is on exports we have continued to see a strong momentum there. So could you maybe just give us an update on the export side of it in terms of say the kind of capacities we have what is the kind of revenues we can do there or any new markets, new products that we are looking to start the exports.

**Satish Patel**: Yes, so exports we have been actually growing over the last few quarters. Exports now contribute 16% of our total revenue and as far as our exports are concerned now we have been able to actually spread our wings across the globe export are serve to all the continents including Asia Pacific and the North America and South America where we had not so significant presence in the past we have also expanded the product portfolio for exports and if I touch upon some of the products where we have been focusing more for exports are one-way clutch, Tarol, CRBs, SRBs, TRBs, we have been quite strong already for exports and then there are certain developments on the machine tool side, stacked bearing, LSB and angular contact bearing. So, all this product whitening and the offerings actually helping in terms of the increase in the overall performance in exports and this has been quite well accepted both from the cost competitiveness point of view as well as the overall quality of the products that we produce which are best in class.

**Mukesh Saraf**: And there is no kind of a capacity constraint we have on these products for exports right.

**Satish Patel**: Absolutely not. Rather we are building the capacity. If you see our Capex that we have spent close to INR 150 crores in the current quarter which is Q2CY2022 large portion of that is going towards the capacity inclusive of the capacity for exports.

**Mukesh Saraf**: I just have one last clarification, last thing to squeeze in. If I look at one of your slides and you have covered it in this opening remarks also with regards to business wins in the aftermarket segment. So, I was just not sure in the aftermarket how does business wins work do we kind of sell it to some large distributors or how does it work.

**Harsha Kadam**: Yes we do work with some of the big distributors in the automotive aftermarket space and rightfully when we launch a new product there is a lot of engaging that has to happen and these are new products where Schaeffler only plays the role of ensuring that we stand guarantee for the quality and performance of the product. So thereby that needs a deeper engagement with our distributer and distribution partners which we do and definitely the rest of the work in terms of helping the distributors to get the product to the market, the entire marketing, and promotional activities that we have to go through is all handled by the Schaeffler team.

**Mukesh Saraf**: Okay understood, thank you I will get back in the queue.

**Moderator**: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

**Sandeep Tulsiyan**: Yes, very good afternoon gentlemen. The first question is pertaining to the auto aftermarket piece, it is just an observation that as you see a stronger growth in this your gross margins do get impacted because some of those lubricants and other products are more of traded nature. So is that a fair conclusion or otherwise the mix improvement should have been able to more than offset the raw material price increase that you saw because both the exports as well as aftermarket piece grew faster in the quarter sequentially. So, if you could just help us build our understanding on this.

**Harsha Kadam**: Yes very good question let me just clarify that the new business wins and the new products that we continue to add in our aftermarket storage are not the only products that we bring out. Let me also appraise you that with the transition in technology that has happened from the BS-IV to BS-VI in the year 2020 there has been new products that we have started to sell to the OEM customers to comply with the BS-VI norms whether it is bearings, whether it is clutches or transmission products or the engine products itself. Now that the vehicles are on the roads for two years now you see now the demand is also beginning to come in, in the aftermarket side for BS-VI compliant products and there to we have started to expand and bring in a lot of this new products into the market which I did not touch upon because I thought we will talk about the new product but this is the continuous activity that we run. So just to give you the information that in the last quarter alone we were able to bring in two different types of clutches complying with the BS-VI norm in the market, we also brought in our front end auxiliary drive kit and the timing kit again complying with the BS-VI norm, we were also able to bring in some taper roller bearings which met the conformances to the BS-VI norm so host of products on the foundation productive packet as I may say so are also being parallelly brought into the market. So, the concern that if the margins going to drop no certainly the margins are going to be shored up by the foundation products that we continue to bring from our own manufactured plants. What does it help is to bring in the wider portfolio of offering to our customers because our customers expect that Schaeffler as an engineering company must be able to offer the wider plethora of products and hence we begin to add more under the SNAP program that we run for the traded products.

**Sandeep Tulsiyan**: So currently volumes are low so we are trading, and the margins are not up to the mark, but as volumes increase you will localize, and margins will improve is what you are highlighting right.

**Harsha Kadam**: Certainly, and we will continue to keep the focus on our foundation products which is manufactured from our own plants because the need for these products is also very well accepted with the end users as well as the mechanics who service the vehicle. So, we believe that we see that there is still a strong demand for the foundation products and that is going to continue.

**Satish Patel**: And just one more comment to what Harsha mentioned I think we have never announced that margins are not up to the mark in terms of the market business.

**Sandeep Tulsiyan**: Second question is on the content per vehicle. You really share a road map where you mentioned starting from €33 you had said it is nearly double over the next few years where are we right now in that journey where do we plan to reach by end of this year and how far are we from that €70 per vehicle kind of a target what we had set for the company.

**Satish Patel**: Let me take that question and my answer to you would be a couple of things that have happened I would like to highlight here. The first thing is Schaeffler India being nominated as one of the champions under the PLI scheme and rightfully as you know the PLI was constituted fundamentally to encourage new investments to be made in the new sector of electric vehicle technologies, the emerging technology. So rightfully we have a clear strategy moving in the direction and we have started to work on projects on the electric vehicle side with our customers be it on the traction motor side or on the e-axle side or some of the products even foundation products which have to be upgraded to play, to participate in the electric vehicle programs. So, we definitely are doing that and there is a clear focus on bringing those new products and new technologies into the Schaeffler India portfolio. If I have to just quote recently we were able to make a breakthrough with one new product called input shaft and this is going to one of the prestigious customer brand in India and we are very proud to be associated with them for the electric vehicles and the hybrid vehicles that they are launching. So, all in all to cut the long story short the content per a vehicle is only set to increase. Now if you were wanting to look at the number where are we, certainly we are on the increasing trend, my conclusion would be that once we begin to deliver the electric vehicle offerings to the customer the content per vehicle is just going to more than double why because the value of the product is more at a subsystem level and we are moving from a component to a subsystem level obviously our content per vehicle definitely is going to increase there.

**Sandeep Tulsiyan**: So, if you can give us where you are in the journey any numerical indication that would help.

**Satish Patel**: Well at this point in time I would desist from giving you a number but as you can be rest assured are being saying the numbers and we will get into the €40 and €50 per vehicle category we are well on track on that and with the launch of more and more products for the electric vehicle applications you will find that the content per vehicle certainly is going to go up.

**Sandeep Tulsiyan**: All right and last question I have from my side is of course there has been some while since the BS-VI platform has been introduced and as you highlighted it has resulted in a lot of new products and new customer wins that we have been able to garner through this. So, if you were to carve out a share of all these new products which came under the BS-VI platform what proportion of our sales would that be representing just an idea is to compare whatever strong growth you have had in two, three years how much of that is through new business wins and how much is through the existing product growth that you have.

**Harsha Kadam**: Well, I did not have the number right away here with me to clearly carve out and tell you how much of that is coming because of BS-VI fundamentally for the simple reason that there are various projects in the pipeline, and they are getting into a business realization at the various stages and various point of time. So as a result, it is quite a bit of a challenge to measure that but nevertheless I take your points we will try and find out what is the contribution due to the new products that we are launching for the BS-VI or even for that matter the new CAFÉ norms that is also going to kick in from 2022.

**Sandeep Tulsiyan**: Thank you so much Harsha and Satish for taking this question.

**Moderator**: Thank you. The next question is from the line of Chaitanya Shah from Silverline Capital. Please go ahead.

**Chaitanya Shah**: Hi! My question is broadly on exports given in the light of situation of what is happening in Europe right now there was a law passed yesterday where countries are going to reduce their gas consumption by 15%. I just want to understand how it is going to affect the industrial activity in Europe and does that present an export opportunity for the Indian subsidiary of the parent company.

**Satish Patel**: Yes, so if we understand the question correctly, the question is that because of the current conditions in Europe because of this 10% or 15% fuel inflation and other impacts because of the geopolitical conditions what it means to us in terms of both risk as well as opportunity.

**Harsha Kadam**: I was trying to understand the last part of your question I think you talked about the parent company can you clarify that a bit I was trying to understand.

**Chaitanya Shah**: In terms of export opportunity, I guess the parent company has a big manufacturing presence in Europe right. So, if that sort of gets affected do you think that can be an export opportunity for the Indian company because of the temporary disruption in the industrial activity in Europe.

**Harsha Kadam:** I get it now; the export business is something that is very strategic to us here in India and we have a clear strategy for the next few years depending on what product lines we want to manufacture in India and accordingly the investments are being made here as well. Obviously it goes about seeing that and intent is to leverage and capitalize on the cost competencies that we see in India. Going forward this is already built into the strategy that some of the products that are being made in Europe would start to shift to India and accordingly the appropriate restructurings are being made there so that was there and it will continue to happen. Now over this if we were to super and impose the situation there, the geological situation is there well would it accelerate, would it decelerate the process well we are not seeing any impact of that on definitely the Indian part of the business. Yes, definitely I believe so that it should augment and expose some more opportunity for us to export considering the fact that the situation that Europe would be going through with the energy crisis which is hitting them. So probably I foresee that definitely the demand for exports would continue to be there for us as well obviously because we do not have an energy crisis situation in our country, but Europe definitely is going to face lot more of it going forward.

**Chaitanya Shah**: Also wanted to understand in terms of cost competitiveness globally where would the Indian company stand vis-à-vis the other parts of the world where the parent has a manufacturing presence.

**Satish Patel**: Yes, of course India is based across country, and we are able to leverage the benefit of the cost competitiveness that we have, but that certainly also depends on the product profile where we have the critical mass and the competency exist. So the product that I actually mentioned before just few minutes before, all the products we have been developing and actually present in India for quite long time now and we have been able to further add to this product some new products like axles, TRBs, RNN, IBB and then we have LSBs and stacked bearings these are the new addition to this product profile all of them have been actually quite cost effective compared to the global for the similar type of products. So, this is the best cost location and then that is what has gone in the strategy as well and that therefore India or Schaeffler India is becoming a global manufacturing hub for standard as well as the mid-size bearings.

**Harsha Kadam**: Just to add to what Satish said, cost is one dimension that we look at, but I think he also touched upon a brief point, and I did not cover that in my presentation, but I definitely think the question has come up I would like to answer. That we are investing into our R&D and engineering competency setup here in India as well consistently and this year significant investments we are making in terms of our engineering capability on some specific product lines. And what we see is India definitely already has the base the building blocks are already there for these product lines and I would not be wrong in saying that for some of these product lines the intellectual competency would be here from India to the rest of the world - Schaeffler world. So, we look at it from multiple dimensions one is cost competitiveness obviously, the engineering capabilities and the design capabilities available in the country not to mention of course other factors as well which is ease of doing business which is the government's initiatives which is also playing a role here as such. So, all in all it is a multitude of factors that actually enables us to look at it. I am not saying India is the only country in this best cost basket there are a few other countries like Vietnam. But certainly, for some product lines we believe that India definitely has an edge when compared to the other best cost countries.

**Satish Patel**: And those are the products where factories in Europe have increasing costs, whereas factories in India we have two years, three years of manufacturing experience.

**Chaitanya Shah**: All right that was very helpful. Thank you so much.

**Moderator**: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

**Bhavin Vithlani**: Thank you for the opportunity. Just continuing on the previous questions. If you could just help us with the opportunity from the mechatronics because that is where globally Schaeffler has talked about when they see a significant opportunity what role India could play and where are we in that journey.

**Harsha Kadam**: Yes we are clearly focused on leveraging the mechatronics competency that exists in India and rightfully, so we have started to expand our footprint in India currently we have close to about 130 to 150 people already on board working on various projects supporting the Schaeffler world globally. So currently the team here in India is catering to all the work that was being done in Europe, a lot of work is now beginning to flow into India and both the software, and the hardware developments have started to happen from the mechatronics and here in our Pune facility. Having said that does it mean that Schaeffler India would not leverage this, no certainly we definitely would be leveraging this competency that is now available with us and as I already shared earlier that in our journey towards delivering products and solutions to the electric mobility sector obviously it goes without saying that we have to develop local solutions with global competency and knowledge and with that local competitiveness as well. So, there are a state of projects that have been listed down which we have started to engage with the mechatronics center trying to leverage so that the mechatronics center is not just a global offshoring center but going forward certainly we will have a better traction in terms of leveraging this competence that is already being invested in.

**Bhavin Vithlani**: Thank you. The second question is on the wind segment globally the OEMs have reported losses because of cost inflation, and we are ramping up this segment and we are localizing it, but if you could just help us how we are placed in this and are we also getting impacted because of the cost inflation that the OEMs are facing.

**Harsha Kadam**: Well, I am not able to answer on behalf of the OEMs, but what I can definitely answer is what we see and yes the OEMs will be coming at the cost pressures particularly with the input cost going up across all the sectors I do not think wind is the only sector every sector was impacted with the input cost going up. One of the changes is that you will see is and we continue to see is investments from the wind customers are not reduced, they continue to invest in capacities in India as they are also going the same way of leveraging the best cost country to manufacture here in India the wind equipment and export them out of India. Now is this going to remain well it needs to be watched. Every organization is now trying to find its way to see how we manage the input cost pressures; I am sure in the wind segment to the same thought prevails. Having said that we do see definitely that there is a growth in the wind sector, investments do come in, it could have slowed down when compared to the same period last year, but then definitely wind continues to still see growth. One other factor that we must keep in mind is the government's agenda to go green and clearly with the hydrogen council that has already been formed the production and demand for green hydrogen will only continue to go up. Having said that both wind and solar I believe is going to play a key role going forward even within India. I have been reading in some places that the wind tariffs might go up, wind power tariffs might go up well if that happens really that is a big booster for the wind segment and more investments to come in right now which has been ruled by the solar energy sector. So, I believe that the wind definitely has a strong growth future in India as well going forward and what we are passing through or what the wind segment is passing through could be only an interim phase.

**Bhavin Vithlani**: Thank you so much for taking my questions.

**Moderator**: Thank you. The next question is from the line of Shyam Sundar Sriram from Sundaram Mutual Fund. Please go ahead.

**Shyam Sundar Sriram**: Hi! Sir, good morning. Thanks for taking my question. Sir you just spoke about some challenges in manufacturing in Europe. Given that is there a re-look at our three-year Capex plan of INR 1000 crores that we had outlined earlier.

**Satish Patel**: Yes, this stays on course with what outlay on Capex that we have announced INR 1,000 crores. This year we are going to invest close to INR 450 crores we already invested INR 200 crores Capex for the first two quarters, or first half was already close to INR 200 crores. We would spend another INR 250 crores in the second half…INR 450 crores. Last year we had over INR 200 crores and in next year we would have even higher Capex outlay. So, three years INR 1000 crores we still keep the same sort of overall target, and we are very much on track on that, and we will be investing accordingly.

**Shyam Sundar Sriram**: You are planning to raise it, right.

**Harsha Kadam**: Just to answer that add to what Satish just said. We are not ruling out a possibility to do a course correction upwardly as the need arises. We will do it. Right now, we believe that this is good enough for us to go because Capex spend has to be judicious and we are being judicious.

**Moderator**: Understood. Thank you very much, that is from my side. Thank you.

**Moderator**: Thank you. Ladies and gentlemen due to time constraints it was the last question for today. I now have the conference over to Ms. Gauri Kanikar for closing comments.

**Gauri Kanikar**: Thank you for joining us today. If you have any further queries please do reach out to me on gauri.kanikar@schaeffler.com. We now conclude the call. Thank you and have a good day.

**Moderator**: Thank you. On behalf of Schaeffler India Limited that completes this conference. Thank you for joining us and you will now disconnect your lines.

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(This document has been edited for improving readability)

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